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Forty-fifth session
Agenda item 140

DRAFT CODE OF CRIMES AGAINST THE PEACE AND SECURITY OF MANKIND

Report of the Secretary-General

CONTENTS

		Page
I.	INTRODUCTION	2
II.	REPLIES RECEIVED FROM MEMBER STATES	3
	Argentina	3
	Australia	3
	Belgium	3
	Canada	4
	Ecuador	4
	Guinea	4
	Mali	5
	Mexico	6
	Nigeria	7
	Norway	7
	Singapore	7
	Trinidad and Tobago	7

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I. INTRODUCTION

1. On 4 December 1989, the General Assembly adopted resolution 44/32, the operative paragraphs of which read as follows:

> "The General Assembly,
>
> "...
>
> "1. Invites the International Law Commission to continue its work on the elaboration of the draft Code of Crimes against the Peace and Security of Mankind, including the elaboration of a list of crimes, taking into account the progress made at its forty-first session, as well as the views expressed during the forty-fourth session of the General Assembly;
>
> "2. Notes the approach currently envisaged by the Commission in dealing with the judicial authority to be assigned for the implementation of the provisions of the draft Code, and encourages the Commission to explore further all possible alternatives on the question;
>
> "3. Requests the Secretary-General to continue to seek the views of Member States regarding the conclusions contained in paragraph 69 (c) (i) of the Commission's report on the work of its thirty-fifth session; 1/
>
> "4. Also requests the Secretary-General to include the views received from Member States in accordance with paragraph 3 above in a report to be submitted to the General Assembly at its forty-fifth session;
>
> "5. Decides to include in the provisional agenda of its forty-fifth session the item entitled 'Draft Code of Crimes against the Peace and Security of Mankind', to be considered in conjunction with the examination of the report of the Commission."

2. On 15 February 1990, the Secretary-General addressed a note to the Governments of Member States requesting the views referred to in paragraph 3 of resolution 44/32.

3. As at 16 August 1990, replies had been received from the Governments of Argentina, Australia, Belgium, Canada, Ecuador, Guinea, Mali, Mexico, Nigeria, Norway, Singapore and Trinidad and Tobago. Those replies which were received sufficiently early were transmitted to be International Law Commission in accordance with paragraph 2 of General Assembly resolution 44/39 of 4 December 1989 and circulated as part of the documentation of the Commission in documents A/CN.4/429 and Add.1 to 4. Further replies will be circulated as addenda to the present report.

1/ Official Records of the General Assembly, Thirty-eighth Session, Supplement No. 10 (A/38/10).

II. REPLIES RECEIVED FROM MEMBER STATES

ARGENTINA

[Original: Spanish]

[23 April 1990]

With regard to paragraph 3 of resolution 44/32, the Government of Argentina considers that it is too early for the Commission to discuss the question of the preparation of the statute of a competent international criminal jurisdiction for individuals. The consideration of that question should begin after agreement has been reached on the definition of offences and penalties under an international criminal law system.

AUSTRALIA

[Original: English]

[7 May 1990]

While conscious of the heavy work-load of the International Law Commission, Australia supports the continued consideration by the Commission of the proposal for an international tribunal to deal with crimes against the peace and security of mankind. Such a view is consistent with Australia's support for resolutions 44/32 and 44/39, our continuing endeavours to make the work of the Commission more timely and relevant and our recognition of the pressures imposed on the judicial system of small States by major crimes, such as international drug trafficking. The consideration of the practical difficulties implicit in the implementation of a proposed international tribunal would, in Australia's view, require the Commission eventually to consider the terms of any statute creating a competent international criminal jurisdiction for individuals. Australia therefore considers that the Commission's mandate should be understood as extending to the drafting of such a statute.

BELGIUM

[Original: French]

[10 May 1990]

In reply to the request made by the Secretary-General pursuant to paragraph 3 of General Assembly resolution 44/32, entitled "Draft Code of Crimes against the Peace and Security of Mankind" seeking the views of the Belgian Government regarding the conclusions contained in paragraph 69 (c) (i) of the report of the International Law Commission on the work of its thirty-fifth session, the Permanent Representative of Belgium has the honour to refer to the reply transmitted on 7 July 1988 concerning the Draft Code of Crimes against the Peace and Security of Mankind (see A/43/525, p. 3, paras. 1-2).

CANADA

[Original: English]

[19 June 1990]

1. It is the view of Canada that a code of crimes listing offences taken directly from the major accepted international instruments would have the best possibility of receiving broad acceptance. Such a concise compilation, combined with the principle reflected in the draft articles elaborated by the Commission, such as prosecute or extradite together with the traditional safeguards, would provide a useful and practical guide to the international community in dealing with these most heinous crimes.

2. However, to go beyond such a mandate into, among other things, the drafting of the statute of a competent international criminal jurisdiction for individuals would, in our view, involve many more years of work. Moreover, the establishment of such a tribunal would raise the issues of an international police force and penal system and deflect attention from the need for better implementation by States of their existing obligations under existing law.

3. Consequently, Canada is of the view that it is premature to extend the mandate of the International Law Commission to the preparation of the statute of a judicial authority for the implementation of the provisions of the draft code of crimes. Such a matter should be reviewed after the Commission has produced an acceptable draft code of crimes.

ECUADOR

[Original: Spanish]

[16 May 1990]

The Government of Ecuador continues to hold the views it expressed in its note of 18 July 1988 (see A/43/525, p. 4). In particular, the Ecuadorian Government continues to believe that the General Assembly should indicate that the task entrusted to the International Law Commission also includes the preparation of the statute of an international criminal jurisdiction.

GUINEA

[Original: French]

[2 May 1990]

1. The Government of the Republic of Guinea feels that one of the basic characteristics of a rule of law, whether internal or international, is that it seeks, by imposing predetermined penalties, to prevent any violation. The Guinean

Government therefore feels that a Code of Crimes, as a collection of rules of criminal law, would miss the mark if it did not provide for penalties, a procedure and a prosecuting body.

2. In any case, the preparation of a Code of Crimes against the Peace and Security of Mankind is not possible without the strictest respect for the principles governing criminal law, which, as everyone knows, is both preventive and punitive. The punishment, that is, the penalties provided, is both the measure and the guarantee of the effectiveness of criminal law.

3. It is moreover not enough to accompany the rule with penalties. A procedure must also be established safeguarding to the fullest possible extent the universally recognized rights of the accused.

4. Guinea for its part feels that, as the product of man's legal conscience, a rule of law, in order to have tangible effects, must be interpreted and applied by a competent body that monitors its implementation.

5. The Republic of Guinea shares the view that the mandate of the International Law Commission should also extend to the preparation of the statute of a competent international criminal jurisdiction to deal with offences termed crimes against the peace and security of mankind committed by individuals.

6. Two factors support this position. First of all, the international community now increasingly is conferring upon the individual the attributes of a subject of international law so that the individual, through universal or regional legal instruments and through treaties, has acquired direct recourse to international bodies to defend his rights. We should also recall the precedent of the Nuremberg trial at the end of the Second World War, where individuals were judged by an international tribunal for crimes that at the time shocked the conscience of the world.

7. The Guinean Government therefore sees no problem in giving the International Law Commission a mandate to prepare the statute of a competent international criminal jurisdiction for individuals who have committed crimes against the peace and security of mankind.

MALI

[Original: French]

[15 February 1990]

1. Following the First World War, mankind felt the need to draw up an international criminal code and to set up an international criminal jurisdiction, but the will to do so could not be translated into reality at that time; the goals in question could not be attained until after the Second World War, when for the first time in history, war criminals were put on trial, at Nuremberg.

READEX FICHE

2. The United Nations has made a consistent endeavour to draw up a draft code of crimes against the peace and security of mankind. After many years of suspension, the United Nations General Assembly once again invited the International Law Commission to consider the issue of whether there is an international legal order, namely, whether there are interests whose protection is not the concern of individual nations but, of all mankind.

3. Environmental pollution problems (for example, destruction of the ozone layer or toxic waste) are a case in point. It is recognized that the environment is a matter of public concern and that it must therefore be given international protection. Likewise, all civilizations must receive equal protection. When it is a question of civilized nations, there is no room for slavery, colonization and domination by one race over another, and for hegemonistic wars, which constitute a negation of peace and security in the world or even crimes against humanity.

4. The International Law Commission will have to list and define in a code acts whose perpetration would disrupt international peace, thus constituting crimes falling within the competence of an international criminal jurisdiction. However, the purpose of such a codification exercise, highly laudable though it may be, remains somewhat unclear, since no international criminal jurisdiction really exists and, moreover, many perpetrators of international crimes are heads of State or Government who, owing to their position, are beyond the reach of the law in their countries. At present, such political leaders are merely denounced before world public opinion. Since such denunciations are insufficient, sanctions are sometimes applied to their countries, wrongly.

5. The purpose of setting up an international criminal jurisdiction is to facilitate the prosecution and personal conviction of all perpetrators, whatever position they hold, of crimes against the peace and security of all mankind.

6. Such a project would inevitably have implications for domestic legislation, which must be brought into line with the measures adopted by the international community in the field of criminal law.

7. In view of the foregoing, the Government of Mali is of the view that the International Law Commission should proceed with the preparation of a draft statute of an international criminal jurisdiction.

MEXICO

[Original: Spanish]

[17 July 1990]

The position of Mexico with regard to the authority required to judge those who engage in international traffic in narcotic drugs is still based on the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances and is therefore opposed to the establishment of an international criminal court to judge these matters.

NIGERIA

[Original: English]

[25 April 1990]

Nigeria is of the view that it is rather premature at this stage for the International Law Commission to consider the preparation of a statute. There are still many issues that remain unsolved in the international criminal system relating to the definition of offences and penalties that would arise from such offences. The International Law Commission should speed up action so that the definition of offences in the draft code is completed in good time. As soon as the draft code is completed, the question of a statute for an international criminal tribunal for individuals could be deliberated on.

NORWAY

[Original: English]

[29 May 1990]

In the view of the Norwegian Government, the question of determining the extent of the Commission's mandate in relation to the preparation of a statute of an international criminal jurisdiction for individuals should await further clarification of the underlying substantive issues.

SINGAPORE

[Original: English]

[30 April 1990]

The Government of Singapore supports the request of the International Law Commission that its mandate extend to the preparation of the statute of a competent international criminal jurisdiction for individuals. The Government of Singapore also holds the view that a code unaccompanied by penalties and by a competent criminal jurisdiction would be ineffective.

TRINIDAD AND TOBAGO

[Original: English]

[3 May 1990]

1. Trinidad and Tobago has always supported the formulation and adoption by States of a code of crimes against the peace and security of mankind. A code, once accepted by States, would serve as an important international legal instrument and

would enumerate the most dangerous crimes which shock the conscience of States and disrupt international peace and security.

2. Certain crimes have assumed a transnational character which unfortunately severely limits the effectiveness of States to combat those crimes when acting within the confines of their domestic jurisdictions. Acts of genocide, torture, crimes against diplomats, mercenariness, terrorism and the illicit traffic in narcotic drugs across international frontiers all pose grave threats to the integrity of States, and have the potential to undermine their stability, security and development.

3. The idea for the establishment of an international criminal jurisdiction and an international criminal court to deal with individuals accused of committing such crimes was, very broadly speaking, nurtured by scholars and non-governmental organizations until the Second World War. Following the establishment of the Nuremburg International Military Tribunal in 1946, it was envisaged that the jurisdiction of an international criminal court would cover individuals charged with violations of certain rules of international law, particularly in such fields as war crimes, genocide and other offences likely to disturb international peace.

4. Under the auspices of the General Assembly, such a proposal was formalized in 1951 and revised in 1954 by the Committee on International Criminal Jurisdiction, established pursuant to General Assembly resolutions 489 (V) of 12 December 1950 and 687 (VII) of 5 December 1952. There followed, however, a period of inactivity brought about by the contents of General Assembly resolution 1187 (XII) of 11 November 1957, in which it was decided that consideration of the question of an international criminal jurisdiction be deferred "until such time as the General Assembly takes up again the question of defining aggression and the question of a draft Code of Offences against the Peace and Security of Mankind".

5. Trinidad and Tobago recognizes that the proposal for the establishment of an international criminal jurisdiction has been on the agenda of the International Law Commission in its drafting of the Code of Crimes against the Peace and Security of Mankind.

6. In exercising its mandate, the Commission has successfully categorized and defined a number of crimes which disrupt international peace and security, such as aggression, apartheid, colonialism and war crimes. Trinidad and Tobago notes the recent submission by Mr. Doudou Thiam, Special Rapporteur on the elaboration of the draft Code of Crimes against the Peace and Security of Mankind, of the draft articles on the illicit trafficking in narcotic drugs and commends the Commission for its timely and positive response in the examination of this global problem.

7. Trinidad and Tobago firmly believes, however, that the elaboration of a code unaccompanied by penalties, by a competent jurisdiction and a court would not be effective. In order to ensure that the code is effective it would be necessary to establish a mechanism for its implementation. It is in this regard that Trinidad and Tobago supports the establishment of a competent international criminal jurisdiction for individuals.

8. The judges of such a court would be appointed on the basis of their moral standing, their legal qualifications and their status as representatives of the world's legal systems. The jurisdiction of such a court, which would require the political support of States, would be derived from its own statute. The statute should seek to guarantee that body's objectivity and impartiality, and to ensure that a code of crimes against the peace and security of mankind is less open to varying interpretations. The draft statute should also suggest the parameters of the court's jurisdiction and, in accordance with the Charter of the United Nations, should seek to ensure adherence to the principles of sovereignty and non-interference in the internal affairs of States parties.

9. Trinidad and Tobago welcomes the submission of the "questionnaire-report" on the statute of an international criminal court prepared by Mr. Doudou Thiam and contained in document A/CN.4/430/Add.1. The early publication of that document enables States to consider provisions which may be included in the statute of an international criminal court.

10. Trinidad and Tobago firmly believes that the international community should attach high priority to the useful and productive work of the International Law Commission on the formulation of the draft code, and to the proposals contained in the "questionnaire-report" on the statute of an international criminal court. The possible alternatives submitted in the latter document would not only facilitate the work of the Commission, but would also assist States in their examination of the feasibility of and the merits for the establishment of an international criminal jurisdiction.

11. In this context, the Government of Trinidad and Tobago is of the view that, by way of facilitating the fullest possible consideration of the question of an international criminal jurisdiction, the International Law Commission could appoint either a special rapporteur or a working group to that end.

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Forty-fifth session
Item 139 of the provisional agenda*

OBSERVER STATUS OF NATIONAL LIBERATION MOVEMENTS RECOGNIZED BY THE ORGANIZATION OF AFRICAN UNITY AND/OR BY THE LEAGUE OF ARAB STATES

Report of the Secretary-General

CONTENTS

		Page
I.	INTRODUCTION	2
II.	REPLIES FROM GOVERNMENTS	2
	Cyprus	2
	Ecuador	3

* A/45/150 and Corr.1.

I. INTRODUCTION

1. On 9 December 1988, the General Assembly adopted resoluton 43/160 B entitled "Observer status of national liberation movements recognized by the Organization of African Unity and/or by the League of Arab States", by which the Assembly urged all States that have not done so, in particular those which act as host to international organizations or to conferences convened by, or held under the auspices of, international organizations of a universal character, to consider as soon as possible the question of ratifying, or acceding to, the Vienna Convention on the Representation of States in Their Relations with International Organizations of a Universal Character; called once more upon the States concerned to accord to the delegations of the national liberation movements recognized by the Organization of African Unity and/or by the League of Arab States and accorded observer status by international organizations, the facilities, privileges and immunities necessary for the performance of their functions, in accordance with the provisions of the Vienna Convention on the Representation of States in Their Relations with International Organizations of a Universal Character; and requested the Secretary-General to report to the General Assembly at its forty-fifth session on the implementation of the present resolution.

2. By a note dated 14 March 1989, the Secretary-General invited Governments to provide him with any information and comments they might wish to contribute to the preparation of the report of the Secretary-General requested in paragraph 3 of the above resolution.

3. The present report reproduces the replies that had been received as at 16 August 1990. Further replies will be reproduced as addenda to the present report.

II. REPLIES FROM GOVERNMENTS

CYPRUS

[Original: English]

[26 April 1990]

The Republic of Cyprus:

(1) has ratified the Vienna Convention on the Representation of States in Their Relations with International Organizations of a Universal Character;

(2) accords to the delegations of the national liberation movements recognized by the Organization of African Unity and/or by the Leauge of Arab States, and accorded observer status by international organizations, the facilities, privileges and immunities necessary for the performance of their functions in accordance with the provisions of the Vienna Convention on the Representation of States in Their Relations with International Organizations of a Universal Character.

ECUADOR

[Original: Spanish]

[4 May 1990]

1. On 6 January 1976 Ecuador ratified the Vienna Convention on the Representation of States in Their Relations with International Organizations of a Universal Character.

2. Regarding paragraph 2 of the resolution, Ecuador accords to the national liberation movements recognized by the Organization of African Unity and/or by the League of Arab States and accorded observer status by international organizations, all the facilities, privileges and immunities applicable in accordance with the above-mentioned Vienna Convention.

UNITED
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23 August 1990
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GENERAL ASSEMBLY
Forty-fifth session
Items 71, 142 and 144 of the
provisional agenda*
REVIEW OF THE IMPLEMENTATION OF THE
DECLARATION ON THE STRENGTHENING
OF INTERNATIONAL SECURITY
DEVELOPMENT AND STRENGTHENING OF
GOOD-NEIGHBOURLINESS BETWEEN STATES
PEACEFUL SETTLEMENT OF DISPUTES
BETWEEN STATES

SECURITY COUNCIL
Forty-fifth year

Letter dated 22 August 1990 from the Permanent Representative of France to the United Nations addressed to the Secretary-General

On behalf of the nine countries (Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, the Netherlands, Portugal, Spain and the United Kingdom of Great Britain and Northern Ireland) which are members of the Western European Union, of which France is the current President, I have the honour to transmit herewith the text of the final communiqué issued at the close of the ministerial session of the Union held in Paris on 21 August (see annex).

I should be grateful if you would arrange for the text of this letter and its annex to be circulated as a document of the General Assembly, under items 71, 142 and 144 of the provisional agenda, and of the Security Council.

(Signed) Pierre-Louis BLANC

* A/45/150 and Corr.1.

ANNEX

Final communiqué issued on 21 August 1990 by the countries members of the Western European Union

1. The Foreign and Defence Ministers of the Western European Union met on 21 August 1990 to discuss the situation in the Gulf caused by the Iraqi invasion and subsequent annexation of Kuwait. The meeting was held pursuant to article VIII, paragraph 3, of the Western European Union Treaty, the Rome Declaration of October 1984 and the platform on European security interests of October 1987, which provide for member countries to concert their policies on crises occurring outside Europe in so far as they may affect European security interests.

2. The Ministers of the Western European Union member States repeated their unreserved condemnation of the invasion and annexation of Kuwait by Iraq and called on Iraq to comply immediately and unconditionally with United Nations Security Council resolutions 660 (1990) and 662 (1990). They restated their firm determination to continue to take all necessary steps to comply with the embargo of Iraq in accordance with United Nations Security Council resolution 661 (1990) and to render the embargo effective. They called on the Security Council to take any further useful measures to that end.

3. The Ministers declared that the determination their countries intended to display in upholding the law was for the sole purpose of ending aggression and its consequences. The action they had initiated was aimed at upholding respect for the principles that should govern relations among States, which concerned the entire international community and served as a safeguard for all its members.

4. Faced with a situation that in the first instance affected the Arab States, the Ministers emphasized the solidarity linking their countries with the Arab world and their resolve to support its efforts to seek a solution from within which respected the relevant Security Council resolutions in the context of their ongoing co-operation and dialogue with the Arab world.

5. The Ministers expressed their acute concern and indignation at the restrictions on the freedom of movement of nationals of the member countries and at the inhuman treatment inflicted on some of those nationals. They warned Iraq of the grave consequences that would inevitably ensue if their safety were to be placed at risk. They reiterated their support for Security Council resolution 664 (1990) and demanded that Iraq comply with it without delay.

6. They stressed that the Western European Union member countries, bearing in mind the vital European interests in the stability, territorial integrity and sovereignty of the States of the area, intended to contribute towards further enhancing the unprecedented international solidarity that had developed since the aggression and had led to effective action by the United Nations Security Council. The countries that were suffering from the economic consequences of that action deserved their solidarity.

/...

7. The Ministers welcomed the measures being taken by Member States in support of United Nations Security Council resolution 661 (1990) and in response to the requests for assistance from States in the Gulf region, with the aim of obliging Iraq unconditionally to withdraw its troops from Kuwaiti territory and restore Kuwait's sovereignty.

8. They decided closely to co-ordinate their operations in the area aimed at implementing and enforcing the measures mentioned in paragraph 7, as well as any further measures the Security Council might adopt, also ensuring, by common agreement, the protection of their forces. Building on the experience acquired, including the consultation mechanisms during the Gulf operations in 1987 and 1988, they instructed an ad hoc group of foreign and defence ministry representatives to ensure the most effective co-ordination in capitals and in the regions. That should cover, among other things, overall operational concepts and specific guidelines for co-ordination between forces in the region, including areas of operation, sharing of tasks, logistical support and exchange of intelligence. Contact points were being designated in the ministries of defence to assist with co-operation at the practical and technical levels and, as an immediate step, to prepare for a meeting of chiefs of defence staff to be held in the next few days.

9. The Ministers emphasized that co-ordination within the Western European Union should also facilitate co-operation with other countries deploying forces in the region, including those of the United States.

10. The presidency of the Council would inform the Secretary-General of the United Nations of the outcome of the meeting.

UNITED
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General Assembly Security Council

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23 August 1990
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ORIGINAL: RUSSIAN

GENERAL ASSEMBLY
Forty-fifth session
Item 35 of the provisional agenda*
THE SITUATION IN THE MIDDLE EAST

SECURITY COUNCIL
Forty-fifth year

Letter dated 23 August 1990 from the Permanent Representative of the Ukrainian Soviet Socialist Republic to the United Nations addressed to the Secretary-General

On instructions from my Government, I have the honour to transmit herewith information concerning the implementation of Security Council resolution 661 (1990).

I should be grateful if you would have this letter and its annex circulated as an official document of the General Assembly, under item 35 of the provisional agenda, and of the Security Council.

(Signed) Guennadi I. OUDOVENKO
Ambassador
Permanent Representative

* A/45/150 and Corr.1.

ANNEX

Information provided in accordance with Security Council resolution 661 (1990) of 6 August 1990

Citizens of the Ukrainian SSR are responding with anxiety and concern to the escalation of tension and hostility caused by the Iraqi forces' invasion of Kuwait. The dangerous development of events in the region runs counter to the interests of a broad selection of States, including the Ukrainian SSR, creates further obstacles to a settlement in the Middle East and conflicts with the general trend towards an improvement in international relations.

The Ukrainian SSR favours the immediate and unconditional withdrawal of Iraqi forces from Kuwaiti territory and the restoration and preservation of the sovereignty, national independence and territorial integrity of the State of Kuwait. The corresponding resolutions of the Security Council are also designed to attain these objectives.

The ministries, departments and institutions of the Ukrainian SSR have been informed of the contents of Security Council resolution 661 (1990). The Government has ordered that ministries and departments responsible for the conduct of commercial, economic, financial and credit relations with Iraq and Kuwait should take appropriate measures to implement the provisions of the aforesaid resolution, which imposes mandatory sanctions in accordance with the Charter of the United Nations. The ministries and departments concerned, and the enterprises and institutions which report to them, are applying that order to their activities.

The Ukrainian SSR expresses the hope that the conflict in the Persian Gulf will be solved exclusively by peaceful means.

UNITED NATIONS

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General Assembly

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A/45/441
13 September 1990

ORIGINAL: ENGLISH

Forty-fifth session
Item 127 of the provisional agenda*

JOINT INSPECTION UNIT

Implementation of the recommendations of the Joint Inspection Unit

Report of the Secretary-General

In its resolution 2924 B (XXVII) of 24 November 1972, the General Assembly requested the Secretary-General to submit annually to the Assembly a succinct report on those major recommendations of the Joint Inspection Unit affecting the United Nations which had not been implemented, together with the reasons therefor. At its thirty-second session, the Assembly adopted resolution 32/199 of 21 December 1977, by which it decided that future reports of the Secretary-General in implementation of the recommendations of the Unit should provide concise information only with regard to those reports which have been indicated by it to be of interest to the Assembly, one of its Main Committees or its other subsidiary organs. Further, in its resolution 42/218 of 21 December 1987, the Assembly requested all bodies of the United Nations system to examine closely those reports of the Joint Inspection Unit which are within their respective areas of competence and to comment, as appropriate, on the recommendations contained therein. The General Assembly has also, in its resolution 44/184 of 19 December 1989, requested the Secretary-General to standardize the format of his reports relating to the work and recommendations of the Joint Inspection Unit in order to include therein the recommendations of the Unit and any decisions of the Assembly and other governing bodies, before making his comments. In addition, the Assembly urged the Secretary-General, in preparing his report, and the Unit, in preparing its annual report, to co-ordinate their efforts in order to present to the Assembly the maximum possible information on implementation of the recommendations of the Unit. The present report is submitted in accordance with those decisions, and includes detailed information on the status of implementation of the recommendations contained in five reports of the Joint Inspection Unit.

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* A/45/150 and Corr.1.

CONTENTS

		Paragraphs	Page
I.	TECHNICAL CO-OPERATION BETWEEN THE UNITED NATIONS DEVELOPMENT PROGRAMME AND THE REGIONAL ECONOMIC COMMISSIONS: ECONOMIC COMMISSION FOR AFRICA	1 - 3	3
II.	REVIEW OF UNITED NATIONS CHILDREN'S FUND ACTIVITIES AND STRUCTURES	4 - 25	3
III.	TECHNICAL CO-OPERATION BETWEEN ORGANIZATIONS OF THE UNITED NATIONS SYSTEM AND THE LEAST DEVELOPED COUNTRIES	26 - 31	8
IV.	REPRESENTATION OF ORGANIZATIONS OF THE UNITED NATIONS SYSTEM AT CONFERENCES AND MEETINGS: PART A. THE UNITED NATIONS	32 - 40	10
V.	EVALUATION OF UNITED NATIONS TECHNICAL CO-OPERATION PROJECT EVALUATION SYSTEMS (PARTS I AND II)	41 - 50	13

I. TECHNICAL CO-OPERATION BETWEEN THE UNITED NATIONS DEVELOPMENT PROGRAMME AND THE REGIONAL ECONOMIC COMMISSIONS: ECONOMIC COMMISSION FOR AFRICA

1. A report on this subject was submitted to the General Assembly at its forty-second session (A/42/110). The report contained 11 recommendations, the first 4 of which were addressed to the Economic Commission for Africa (ECA) and the others to the United Nations Development Programme (UNDP). The related comments of the Secretary-General are contained in document A/42/110/Add.1. By its decision 1987/184, the Economic and Social Council took note of the report of the Joint Inspection Unit (JIU) and the comments of the Secretary-General thereon. By its decision 42/446 of 11 December 1987, the General Assembly, on the recommendation of the Second Committee, took note of both the JIU report and the comments of the Secretary-General.

2. The JIU report and the related comments of the Secretary-General were reviewed by the Committee for Programme and Co-ordination at its twenty-seventh session (27 April-29 May 1987). The Committee noted that a number of the conclusions and recommendations of the report did not appear to be factually substantiated or based on coherent arguments. It also expressed the view that most of the report's conclusions and recommendations were not commensurate with the arguments in the body of the report regarding the strengthening of the role of the ECA in its relationship with UNDP.

3. In the light of the views expressed by Member States in the Committee for Programme and Co-ordination, it was deemed advisable not to proceed with the implementation of the recommendations of the report, which in any event had not been favourably received by the organizations concerned.

II. REVIEW OF UNITED NATIONS CHILDREN'S FUND ACTIVITIES AND STRUCTURES

4. A report on this subject was submitted to the General Assembly at its forty-second session (A/42/136). The report contained 13 recommendations addressed to the UNICEF secretariat and its Executive Board. The report was considered by the Executive Board at its 1987 regular session (E/ICEF/1987/II, paras. 64-69), and served as a background to the consideration of the biennium budget by the Board at its regular session in 1988.

Restructuring

Recommendation I: The Secretariat should:

(a) Space out the more or less institutionalized directors' meetings and simplify the existing collegial system;

(b) Establish an all-purpose inspection unit reporting directly to the Front Office;

(c) Set up a permanent forecasting and analysis unit with a small staff to focus on planning and long-term studies. The journal Assignment Children would be the responsibility of this unit.

5. The current structure of institutionalized meetings was streamlined subsequent to the JIU report. UNICEF feels that the strong spirit of collegiality and participation in decision-making processes is one of its strengths, particularly since UNICEF is highly decentralized in order to better respond to developing countries' needs through the network of country offices. The Executive Director is none the less mindful of the need to maintain rapid and decisive decision-making processes.

6. An "inspection unit" dealing with operational/management issues and attached to the Executive Office would certainly be able to make a number of contributions (although there would be considerable overlap with the regional directors who are now posted in the field to serve many of these functions as well as the planning and internal audit offices - which currently do report directly to the Executive Office). In order to respond to this need and to avoid creating additional headquarters posts, the inspection functions are being carried out through an enhancement of the planning and internal audit offices.

7. The proposal to create a permanent analysis and forecasting group is an excellent one and indeed the Executive Director announced the creation of such a planning unit in the spring of 1986.

Recommendation II: The reorganization of the Programme Division should focus on the geographical sections; the technical sections should be abolished and their staff redeployed and cut back.

8. The programme group at Headquarters has reduced its core staff for technical support to the point where in some cases there is only one technical adviser in a core post for major areas of UNICEF involvement. This single adviser is responsible for providing global policy development, maintaining the technical co-ordination and collaboration with the United Nations agencies, bilateral aid agencies and non-governmental organizations as well as providing key, country-level, technical support. As delegations to the Executive Board noted when reviewing the JIU report, a reduction beyond existing levels would adversely affect programme delivery, and it may occur that the present reductions initiated by the secretariat have already gone too far.

Recommendation III: The role and functions of IRM should be clarified in respect of the Programme Division, with priority given also to the selection and reduction of information flows.

9. The Information Resources Management Division was established shortly before the Inspector's principal visits. In the years since its establishment, its role and function has been well defined and it is functioning smoothly. Its primary function is to streamline and improve the structure of information flows and their processing, which is in accordance with the JIU recommendation.

Recommendation IV: The regional-office tier should be maintained and consolidated within the framework outlined by the principles of seniority and the two-tier structure. The system of regional meetings should be revised and the reassignment of the advisory capacity to the regional offices should entail a redefinition of its functions in the UNICEF programme manual.

10. Making effective use of the regional offices is a desirable goal. However, with the large reductions that have already taken place at Headquarters locations, the primary sources of such strengthening would necessarily come either from country-level staff or an increase in overall staffing levels. There are, however, methods of strengthening the regional offices other than staff increases, such as enhancing staff quality, training and management procedures, and the Executive Director has actively pursued them. Since the report, the role of the regional offices has been focused on during the last two budget exercises. This is now an ongoing process to ensure that all resources are used effectively and efficiently.

Recommendation V: The methods and procedures used in certain forms of recruitment at the regional level should be reviewed.

11. Certain types of recruitment (including those recommended by JIU) continue to be carried out at the regional level, as has been the practice for some time. The methods and procedures for recruitment will continue to be kept under review as part of the development of UNICEF's human resource planning.

Recommendation VI: The reapportionment of the areas of authority of certain regional offices should be accompanied by the establishment of a new regional office for southern Africa.

12. This recommendation has considerable merit, although the additional staff and other costs of creating a new regional office proved prohibitive. In the mean time, as a result, UNICEF has shifted the country office in Angola to the East Africa Region so as to consolidate all of southern Africa under one umbrella. The new regional office is now called the East and Southern Africa Regional Office.

Recommendation VII: The Under-Secretary-General-level post for external relations should be eliminated through attrition.

13. Members of the Executive Board have noted that the post of Deputy Executive Director for External Relations has the responsibility for overseeing and integrating some of UNICEF's most sensitive and valuable functions - Programme funding, public information, National Committees, the Geneva Office, the greeting card operations and non-governmental organizations. As a voluntary-funded organization with a strong emphasis on external public participation and social mobilization, these activities are at the core of UNICEF programme activities and its unique character. Achieving these goals and integrating these disparate but quite mutually reinforcing activities requires close internal co-ordination for which top echelon direction and supervision is crucial. Indeed the previous absence of such a post was one of the major lacunae identified by the management study issued on 25 February 1975 by the Scandinavian Institutes for Administrative Research under the title "The strengthening of the best traditions in UNICEF".

14. It should also be pointed out that, because of years of restraint, UNICEF has not experienced the increase in top-level posts that had taken place elsewhere at the time the JIU report was written. In fact, in the 10 years prior to the JIU report, UNICEF's proportion of top-level posts to its overall staff has actually declined 37 per cent and at the time of the JIU report the average ratio of top-echelon staff to total staff for the rest of the United Nations system was about three times higher than that of UNICEF. This ratio has continued to decline and is now at its lowest level in recent history, far below the average for the United Nations system.

Monitoring and follow-up of programme implementation

Recommendation VIII: Evaluations should be carried out selectively and only by the regional office. Priority shall also be given to strengthening the evaluation capabilities of recipient countries. Additional measures should be taken in the following areas:

(a) Internal auditing, institutionalized at the regional level, would provide a regular check on programmes and accounts;

(b) Technical monitoring of equipment delivered would be instituted to give UNICEF inspection rights in connection with its use and maintenance;

(c) Basic inspection and monitoring would be expanded through systematically increased use of junior officers and various categories of volunteer workers.

15. Just prior to the report, the UNICEF Executive Board undertook a very thorough review of its evaluation activities and the Board had a very strong consensus in favour of stepping up evaluation activities. The secretariat also finds that evaluation activities have been a highly cost-effective means of improving programme efficiency and effectiveness. The secretariat would therefore be reluctant to reduce the number of evaluations. However, measures have been taken to continue to refine their focus - in particular by concentrating on high-priority programme areas and strengthening rapid feedback concerning the programming process. Further concentration has been placed on evaluating a programme's contribution to the overall development process, as distinct from evaluating a one dimensional "impact".

16. Strengthening the recipient countries' own evaluation capacities has become an increasingly important part of UNICEF efforts. Similarly, regionally based evaluations are useful, but cannot substitute for work done in-country and by headquarters.

17. For the last several years internal audits have been institutionalized at the regional level (as well as at headquarters).

18. Monitoring and on-site inspection are an integral part of UNICEF's field-based approach and one of the major responsibilities of country offices. In UNICEF's case, this task is especially facilitated by its special structure. Some

85 per cent of its staff are located in field offices, many of these are local staff (including national professionals), and in some cases there are offices at the provincial level.

19. Junior Professional Officers are often used for the purposes of monitoring and on-site inspection, but their availability is of course limited to the numbers that donors provide. Since the JIU report, UNICEF sought to increase their numbers. UNICEF's collaborative programmes with non-governmental organizations, especially local ones, are another, especially rich source of field monitoring, particularly given their knowledge and familiarity with village-level conditions.

> Recommendation IX: Annual reports should be standardized as to content and format, with special reports submitted on a confidential basis attached as appendices.

20. Annual reports are currently standarized with one revolving component often relating to newly emerging priority issues or seeking information for upcoming thematic reports to the Executive Board. Confidential annexes are the current practice.

> Recommendation X: The provision of individual reports to donors should follow a uniform and simplified procedure; the reports should not be prepared until a project is completed.

21. The implementation of this recommendation helps to facilitate the work of the Secretariat. Since the report, some measures to space out and standardize donor reporting were agreed upon by the Executive Board. However, this streamlining has to be continually balanced against donor requirements for accountability, in part, so as to ensure no diminution of financial resources.

The role and work of the Executive Board

> Recommendation XI: Like the budget cycle, the cycle of Executive Board and committee sessions should be biennialized; several related measures should be taken as part of this reform.

22. The Executive Board has for a number of years discussed the possibility of having a biennial concentration of its work, and has already biennialized some aspects of financial reporting. However, the Executive Board did not agree that the overall work of the Board and its two committees should be biennial. From 1991 additional biennial concentration of reports will take place.

> Recommendation XII: Economic and budgetary documents prepared by the secretariat for the Executive Board and the committees should be improved as to volume, accuracy, readability, openness and, in particular, the method of calculating indirect costs.

23. Finding the best format for budgetary presentations can be a difficult task for which there may not be one best answer for all concerned. As the JIU report points out, the current format adopted by the Executive Board in 1984 differed

considerably from the proposal made in 1980 by Inspector Bertrand who studied the matter at the request of the UNICEF secretariat (which was in turn somewhat different than the recommendations of the UNICEF secretariat). The JIU analysis underlines how difficult and even sometimes arbitrary it is to distinguish between programme support and programme delivery. Upon the request of the Executive Board and the Advisory Committee on Administrative and Budgetary Questions in 1989, the Executive Board approved, in 1990, some changes in the budgetary presentation effective from 1991.

24. However arbitrary and conceptual distinctions might be, and even considering the Unit's point that development assistance might inevitably be costly, UNICEF believes firmly in the need to keep its administrative costs low, in order both to maximize the delivery at the field level and to maintain public confidence and support. For this reason the secretariat has lowered (and maintains at a low level) its overhead ratio. Inter-agency comparisons in this field are of course often misleading - for example, large capital projects usually have lower overhead costs than social development activities. Different organizations also have different structures - some do not execute projects, while others only execute but do not raise programme funds. Still it is worth while to note that previous Director-General's reports to the Economic and Social Council and the General Assembly on this subject, while stressing the limitations of such comparisons, have shown that UNICEF had relatively favourable ratios.

> Recommendation XIII: Care should be taken to ensure that the statutory provisions or guidelines governing the Standing Group of National Committees in no way limit the powers of the Executive Board.

25. The statutory powers of the Executive Board as decided upon by the General Assembly make clear that the Board's authority is that of an intergovernmental body and remains quite distinct from the role of the National Committees.

III. TECHNICAL CO-OPERATION BETWEEN ORGANIZATIONS OF THE UNITED NATIONS SYSTEM AND THE LEAST DEVELOPED COUNTRIES

26. A report on this subject was submitted to the General Assembly at its forty-third session (A/43/228). The report contained four recommendations addressed to organizations of the United Nations system involved in technical assistance to the least developed countries (LDCs). The related comments of the Administrative Committee on Co-ordination are contained in document A/43/228/Add.1.

The financing of technical co-operation

Recommendation 1 (a): UNCTAD and the Director-General for Development and International Economic Co-operation should make an exhaustive inventory of all the sources for financing the United Nations system's technical co-operation with the LDCs, keep watch on their evolution and proceed to update them so as to provide the various bodies within the United Nations system with tools whereby they can make a concrete quantified analysis of the development of such co-operation. This exercise should be undertaken by UNCTAD and the Director-General without allocation of special funds to that end, in the framework of their periodic reports on the implementation of the Substantial New Programme of Action (SNPA).

27. Both the Director-General and the United Nations Conference on Trade and Development (UNCTAD) indicated in the comments of the Administrative Committee on Co-ordination their intention to implement the recommendation of JIU. Since then, information has been provided on a regular basis by the organizations concerned and compiled and disseminated in the framework of the periodic reports on this implementation of the Substantial New Programme of Action. The compiling, analysis and dissemination of information has been intensified in the context of the preparation of the Second United Nations Conference on the Least Developed Countries.

Recommendation 1 (b): The various funding and executing agencies of the United Nations system should make additional efforts and devise supplementary ways and means to enhance the absorptive capacity of the LDCs.

28. The organizations concerned indicated their full agreement with this recommendation, which is very much in keeping with the provisions of General Assembly resolution 44/211 of 22 December 1989 on operational activities of the United Nations system, and have implemented it within their respective areas of competence.

The programming of technical co-operation activities

Recommendation 2: Taking into account the modalities and mechanisms suggested in this chapter and, in particular, in the conclusions, the organizations of the United Nations system should, so as to make the programming of technical co-operation with the LDCs more consistent and effective:

(a) Gradually harmonize the programming time frame, on the basis of foreseeable financing;

(b) Bring programming into line with the objectives and strategy of each LDC's development plan;

(c) Ensure that programming is an effective aid to the LDCs in moving ahead, cycle by cycle, along the path of rehabilitation and development.

29. This recommendation was generally well received by the organizations concerned. It is very much in line with the provisions of General Assembly resolution 44/211, in particular paragraph 17, which calls for more integrated and co-ordinated programming of United Nations system co-operation. The organizations concerned are proceeding with its implementation. In this connection, it is noted that the Director-General is to submit to the forty-fifth session of the General Assembly a report on the simplification, harmonization and adaptation of rules and procedures.

Implementation of technical co-operation projects

Recommendation 3: In the light of the comments and suggestions made in this chapter, the organizations of the United Nations system should:

(a) Help LDCs directly to execute more technical co-operation projects, either individually, thereby promoting self-reliant development, or in co-operation with other countries, thereby strengthening ties of economic co-operation;

(b) Find appropriate solutions for implementation delays and, in particular, for problems relating to the purchase and maintenance of equipment;

(c) Gradually attach greater importance to the training of national managers.

30. This recommendation was very well received by the organizations concerned and its provisions have been implemented.

Co-ordination of technical co-operation activities

Recommendation 4: The Director-General for Development and International Economic Co-operation should carry out a study of the number of meetings for the co-ordination of the activities of the organizations of the United Nations system in favour of the LDCs, of the cost of the documentation submitted to them and of representation costs and suggest ways and means of reducing the number of such meetings, avoiding duplication and making substantial savings in terms of human and financial resources so that they might be earmarked for the implementation of operational activities in the LDCs.

31. Although the specific study requested has not been carried out, the Director-General, in co-operation with the Secretary-General of UNCTAD, has undertaken to streamline the number of meetings, to reduce documentation and to improve the effectiveness of meetings along the lines suggested by the Inspector. It should be noted, however, that preparations for the Second United Nations Conference on the Least Developed Countries have required more intensive inter-agency consultations than might normally be the case.

IV. REPRESENTATION OF ORGANIZATIONS OF THE UNITED NATIONS SYSTEM AT CONFERENCES AND MEETINGS: PART A. THE UNITED NATIONS

32. A report on this subject was submitted to the General Assembly at its forty-third session (A/43/586). The report contained seven recommendations concerning various aspects of the implementation of the Secretary-General's bulletin ST/SGB/207 of 5 December 1984 and ST/SGB/207/Rev.1 of 16 December 1987, in order to achieve proper representation of the United Nations at conferences and meetings. The related comments of the Secretary-General are contained in document A/44/221. This report provides information on implementation of the recommendations in the intervening period.

33. As will be seen from the reporting on the individual recommendations, implementation can be considered completed for recommendations 1 and 2. Recommendations 3-7 are still in the process of being implemented. The Secretary-General considers that by their nature the latter recommendations can never be considered fully implemented.

> Recommendation 1: The Secretary-General should further request the United Nations departments and offices to strictly observe the provisions under ST/SGB/207/Rev.1, with particular emphasis on the time limits regarding the issuance of invitations and the submission of the requests for authorization, as well as on the substantive preparation for and proper participation of the United Nations representatives in conferences and meetings.

34. As envisaged in document A/44/221, paragraph 8, a note from the Executive Office of the Secretary-General on the results and findings of the two full years of experience implementing ST/SGB/207/Rev.1 was communicated to all United Nations departmental officers on 23 April 1990. This note includes recommendation 1.

> Recommendation 2: The Representation Unit of the Executive Office of the Secretary-General should be administratively restructured so as to increase its working capacity in implementing the present co-ordinating and approval procedures under ST/SGB/207/Rev.1, thereby contributing further to the achievement of the objectives put forward therein.

35. To implement this recommendation, a post at the P-4 level, on loan to the Representation Unit, Executive Office of the Secretary-General, since 1 January 1985, was transferred permanently to the Unit on 1 January 1990. In addition a clerical post at the G-5 level was re-deployed to the Representation Unit.

> Recommendation 3:
>
> (a) The practice of passive participation should be reconsidered and seriously reduced;
>
> (b) Attendance of the United Nations departments at conferences and meetings should be limited to one person;

(c) Wherever liaison or field office exists in the venue of the meeting, travel from Headquarters for representational purposes should not be allowed, unless the meeting is of a highly specialized nature.

36. Concerning this recommendation, strict controls have been established and implemented, to assure that travel authorizations are only given according to the criteria discussed in paragraphs 10-12 of document A/44/221.

Recommendation 4: The length of attendance at meetings held outside Headquarters, which would incur high expenditures for travel and per diem, should be kept to the minimum.

37. The Representation Unit continues to maintain a close co-operation with the Programme Planning and Budget Division of the Department of Administration and Management to assist in holding down travel and per diem costs through taking early action to take advantage of discount fares, encouraging the holding of meetings at Headquarters, discouraging attendance at meetings in remote locations and promoting the "bunching" of meetings, to avoid repeated trips to the same location.

Recommendation 5:

(a) Rules and practices in the financial area should be made uniform, and corrective measures should be taken to implement the related provisions for financial control;

(b) Official travel to attend conferences and meetings should be correctly coded (as 222) without mixing with other codes;

(c) The sub-code number for representation travels should be introduced in order to separate this type of expenditure from any others, thereby ensuring better financial control.

38. The implementation of recommendation 5 in its entirety is described in document A/44/221, paragraphs 14-16.

Recommendation 6: The United Nations departments and offices should constantly review and evaluate overall representational activity in a comprehensive and critical manner. Particularly, departments which have a large activity of representation should establish appropriate monitoring procedures in order to avoid superficiality in assessing their activity in representation.

39. The Representation Unit constantly reviews and evaluates its criteria for approving travel requests according to the actual needs of the Organization. Concerning other departments and offices, the Representation Unit maintains close co-operation with them to ascertain that monitoring procedures precisely examine the actual need for representation in each proposed case.

Recommendation 7: The United Nations services dealing with technical innovations should further follow the developments in the use of new technologies with a view to introducing advanced systems as teleconferencing in the field of representation.

40. As indicated in paragraph 18 of document A/44/221, teleconferencing for representation would be potentially useful for meetings that are largely for the exchange of information or expertise and that do not require informal personal discussions among the participants outside the formal sessions. The Secretary-General is continuing to explore the potential application of this technology in the field of representation.

V. EVALUATION OF UNITED NATIONS TECHNICAL CO-OPERATION PROJECT EVALUATION SYSTEMS (PARTS I AND II)

41. A report on this subject was submitted to the Economic and Social Council at its second regular session of 1989 (E/1989/41 and Add.1). The report contained four recommendations concerning the evaluation of United Nations technical co-operation project evaluation systems, addressed to executing agencies and to UNDP. The related comments of the Administrative Committee on Co-ordination are contained in document E/1989/41/Add.2.

Recommendation I: It is recommended that executing agencies and UNDP:

1. Ensure better co-ordination and improvement of evaluation methods of evaluation services within the United Nations system and the continuous exchange of information among them:

   - by institutionalizing the Inter-Agency Working Group on Evaluation (IAWG);

   - by establishing a timetable for regular meetings of the Working Group;

   - by placing their secretariat at the disposal of UNDP evaluation services so as to limit the financial implications of such an initiative as far as possible.

2. Include the following tasks for the Working Group in the programme of work, as a matter of priority:

(a) Review of the role, types, methods and practice of evaluation by embarking on a comprehensive examination of the questions of overall impact and the country-specific approach compared to the project-specific approach and the mechanical and sectoral logic which it presupposes;

(b) Study of ways and means of incorporating the questions of sustainability and viability in the project implementation process at the preparation, tripartite review and PPER stages or in the course of ex post terminal or impact evaluations;

(c) Study of the possible reorganization of project monitoring and supervision and the consequent readjustment of the complementary roles of monitoring and self-evaluation;

(d) Study of types of evaluation on the basis of anticipated output and benefits in the form of project feedback and follow-up;

(e) Exploring administrative and financial possibilities for incorporating into the budget envelope of certain projects the funds necessary to carry out impact evaluations of project cost-effectiveness and sustainability after the completion of operations.

42. The organizations concerned welcomed the recommendation of JIU and it has been implemented. The Inter-Agency Working Group on Evaluation has been meeting periodically; its last meeting took place in October 1989 and its next meeting is scheduled for the last quarter of 1990. The organizations have taken note of the topics proposed for study by JIU, which have been included in the programme of work of the Working Group. They were reviewed by the Group at its October 1989 meeting and the agencies are proceeding with their implementation.

Recommendation II: It is recommended that executing agencies and UNDP:

1. Review the general layout of the procedures manuals at present in use and in particular the most recent version of the chapter devoted by UNDP to monitoring and evaluation, supplement them by instructions indicating how they should be used and make them both more didactic and more practical, in particular by:

(a) The production of manuals which identify according to type, nature or scope, the major questions to be dealt with in evaluations;

(b) The addition of check-lists of the most striking and most frequent difficulties and mistakes, irregularities and constraints likely to be encountered in the course of a monitoring assignment that entails auditing or verification of project delivery;

(c) The preparation of tables of the climatic and seasonal factors that may, depending on the geographical area, affect programme and project delivery timetables;

(d) The formulation of a set of differentiated economic and social progress indicators reflecting areas of application, types of activity and the kind of operations of which executing agencies must take cognizance;

(e) The adoption of an indicative list of the analytical criteria required, for evaluation purposes, with a view to the refinement of conclusions in the light of all foreseeable distinctions (ethnic, religious, regional, occupational, etc).

2. Examine how procedures and manuals dealing with the specific features of countries in which evaluation is carried out can be improved; adjust efficiency criteria accordingly.

43. The organizations concerned endorsed the need for continuing review of existing guidelines and implementing changes where necessary. However, they all viewed with concern the counterproductive nature of a review that proliferates guidelines, check-lists and manuals. Furthermore, they felt that the overall issue must be viewed in the context of the transition from a project to a programme approach and of the increasing involvement of governments in execution, monitoring and evaluation, as called for by the Member States in General Assembly resolution 44/211.

44. The in-depth reforms called for in resolution 44/211 will have a decisive, long-term impact on the procedures, guidelines and manuals utilized for project evaluation. Pending their full implementation according to the three-year schedule submitted to the Member States at the second regular session of 1990 of the Economic and Social Council, it would be premature to proceed with the implementation of the specific recommendations of JIU.

Recommendation III: It is recommended that executing agencies and UNDP:

1. Readjust priorities to emphasize monitoring and take account of the constraints and difficulties encountered in the project preparation process, the increased role played by the recipient States as United Nations executing agencies and the mediocre functioning of the existing system of monitoring and verification at grass-roots level.

2. Restructure and strengthen the monitoring and verification of projects by the introduction of a second echelon accompanied by the following:

(a) The adoption by the specialized agencies of a general purpose inspection system on the UNESCO model;

(b) The establishment, at the regional or subregional level and within the specialized agencies, of an office to verify and monitor the delivery of projects by adapting the system already tested by UNICEF to the specific machinery of the agency concerned;

(c) Adjustment of the second-echelon back-stopping and monitoring functions hitherto performed exclusively by technical administrators of sectoral divisions of specialized agencies, so that they may be carried out and monitored jointly by technical administrators in conjunction with programme administrators, having regard to the special features of each organizational structure.

3. Undertake any redeployment and transfer of staff from headquarters of specialized agencies to their regional offices as necessary for the implementation of the measures outlined above.

45. The organizations concerned welcomed efforts to strengthen monitoring, but emphasized that it should not be done at the expense of self-evaluation or any other form of evaluation. They believe monitoring and evaluation should be seen as a continuum.

46. Regarding recommendation III.2, none of the agencies, not even the United Nations Educational, Scientific and Cultural Organization (UNESCO), which was presented as a model, supported the introduction of a second echelon in monitoring and it has not been implemented. Even if the agencies had been favourable to its implementation, cost considerations at a time of zero-growth budget in the agencies concerned would have been a major constraint.

47. The organizations also pointed out that their institutional arrangements for monitoring and evaluation reflected their unique and specific institutional structures and requirements and felt that the proposal to establish a single office at the regional or subregional level was unrealistic and unnecessarily cumbersome; therefore, it has not been implemented.

48. Finally, all organizations concerned pointed out that the redeployment of staff from headquarters to regional offices to strengthen monitoring was already part of their policies.

Recommendation IV: It is recommended that executing agencies and UNDP:

1. Adopt a formula making central evaluation offices directly responsible to the Director-General of the executing agency, in order to accord them their proper status.

2. Strengthen central evaluation offices of specialized agencies and provide extra staff within existing budgetary constraints by carrying out the necessary redeployments.

3. Restructure the organization and work plans of central evaluation offices to allow for the strengthening of second-echelon monitoring, the general adoption of the inspectorate-general approach and the establishment of regional offices for verification and monitoring of project implementation as described in recommendation III.

49. All organizations concerned welcomed the spirit of the recommendation, which aims at strengthening the role of central evaluation units and at ensuring direct access to the highest level in the organizations. However, they pointed out that the current location of their central evaluation units already guaranteed direct access to the highest level of management as well as independence and objectivity in their work and therefore they saw no need to relocate them.

50. Recommendation IV.3 has not been implemented for the reasons given above.

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DEVELOPMENT AND INTERNATIONAL ECONOMIC CO-OPERATION:
TRADE AND DEVELOPMENT

World commodity trends and prospects, with particular reference to the situation of commodity-dependent developing countries

Report of the Secretary-General of the United Nations Conference on Trade and Development

CONTENTS

		Paragraphs	Page
I.	INTRODUCTION	1 - 18	3
	A. Overview	2 - 14	3
	B. Short-term outlook for commodities	15 - 18	6
II.	WORLD COMMODITY TRENDS	19 - 51	7
	A. Production of commodities	19 - 27	7
	1. Agricultural production	20 - 24	7
	2. Mineral production	25 - 26	8
	3. Petroleum production	27	9

CONTENTS (continued)

		Paragraphs	Page
B.	Trends in international trade of commodities	28 - 51	9
	1. General trends	28 - 30	9
	2. Trends in the international trade of main non-fuel commodity groups	31 - 51	11
III.	DEVELOPING COUNTRIES' COMMODITY DEPENDENCE	52 - 68	20
A.	Commodities in total exports by developing countries ..	52 - 56	20
B.	Dependence on a small number of commodities	57 - 60	22
C.	Dependence on crops whose trade is illegal	61 - 63	22
D.	Dependence on food imports	64 - 66	23
E.	Constraints on diversification	67 - 68	24
IV.	PRICE AND INCOME TRENDS	69 - 91	24
A.	Price behaviour of specific commodities	69 - 81	24
B.	Purchasing power of developing countries' commodity exports	82 - 85	34
C.	Instability in export earnings and the finance provided	86 - 91	35

I. INTRODUCTION

1. The present report has been prepared in response to paragraph 12 of General Assembly resolution 44/218 of 22 December 1989, in which a request was made to the Secretary-General of the United Nations Conference on Trade and Development to submit to the Assembly at its forty-fifth session a report on world commodity trends and prospects, with particular reference to the situation of the commodity-dependent developing countries. In preparing the report, account has also been taken of the various issues mentioned in other paragraphs of the General Assembly resolution bearing upon world commodity trends and prospects. The report focuses on the main developments in the production and trade of fuel and non-fuel commodities, developing countries' dependence on export earnings from commodities and trends in commodity prices and commodity export earnings since 1970. 1/

A. Overview

2. Since 1970 there has been a steady increase in world production of commodities. The increase was faster in agriculture than in minerals and fuels, and in the developing countries as a group than in developed countries. Regional divergences among developing countries were significant, however, with South and South-East Asia showing the strongest performance in both agriculture and minerals, and Africa, the weakest.

3. The volume of world trade in petroleum stagnated, while that in non-fuel commodities expanded modestly over this period compared to manufactured goods. In general, commodity prices, except that of petroleum, declined relative to manufactured goods prices. By the late 1980s and, despite increased export volumes, developing countries were able to buy with their non-fuel commodity exports only the same amount as they imported at the beginning of the 1970s. As a consequence of both quantity and price factors, the share of commodities in world trade declined.

4. For the majority of developing countries dependence on exports continued. Problems associated with price and export earnings instability were aggravated by the generally low levels of prices by historical standards. Although the instability of prices has been somewhat less since 1982 than earlier, significant shortfalls in export earnings still occurred. Such shortfalls cause serious difficulties in implementing long-term development or adjustment programmes.

5. Currently, the only international commodity agreement that directly addresses the issue of price instability is natural rubber. Price stabilization provisions in the international agreements for coffee and cocoa are inoperative, petroleum and tin have producers' co-operative actions and are aimed at restricting export volumes.

6. Most developing countries continue their traditional role of exporting commodities in their raw forms. The shift towards exporting in processed and manufactured forms, while significant, has been confined to a handful of developing

countries. Some developing countries exporting processed commodities do not produce them in the raw forms.

7. There has been a decelerating demand for natural raw materials over the period, but it would seem that the consumption of such materials per unit of output is unlikely to dwindle as fast as contemplated a few years ago. Consumption will continue to vary with the level of industrial activity and particularly in the capital goods industry for metals and minerals.

8. Demand for commodities in the developed countries is increasingly influenced by a multitude of factors, such as fashions, the age structure of population, health or environmental concerns and regulations. Some of these factors, if capitalized correctly, may provide a welcome boost to the demand for natural products. Demand by developing countries for both foodstuffs and raw materials is closely linked to their level of economic growth, and they are becoming significant importers of commodities. This trend is likely to continue given the potential for food needs and for expanding industrialization in these countries.

9. Occasional over-supplies of commodities on world markets have always occurred. For many developing countries, debt pressure has spurred exports in the 1980s. A new concern in the field of commodities is the tendency towards over-supplies on a prolonged basis as producers, particularly new entrants, attain high yields and relatively low costs of production. Since the traditional suppliers find it difficult to diversify, the pressure to produce more of their traditional crops exacerbates the over-supply situation, prices fall further and even new entrants can find their costs of production barely covered. In the minerals sector, a similar phenomenon occurs when a new low cost mine is discovered or new techniques are adopted in old mines.

10. Agricultural production and trade policies of developed countries involving high levels of support for domestic producers have also exacerbated surpluses in competing exports from developing countries. A consequence has been to limit market opportunities for developing exporters in both developed countries and third country markets. Moreover, food production for domestic consumption has been discouraged by the availability of cheap imports in a number of developing countries. There are signs that policies in developed countries leading to current high levels of production, in particular of foodstuffs, may be changing. Some of these policies may be severely modified or even discontinued in the foreseeable future. Both potential exporters and current importers of these commodities have to be extremely vigilant concerning the positive and negative effects of this eventuality which will have a profound importance on world trade patterns.

11. A current concern is the impact on commodities trade of the changes taking place in Eastern Europe. There are several factors which will determine the implications for developing countries' commodity exports. The potential impact should not be exaggerated however, as the region currently accounts for less than 7 per cent of world commodity imports.

12. Firstly, per capita consumption of major commodities, which is generally lower in Eastern Europe than the West, can be expected to increase with economic growth.

Economic growth, however, is likely to stagnate for a few years before picking up. Thus demand for commodities, in particular raw materials, could also stagnate before accelerating. Secondly, as market mechanisms are adopted, industries in Eastern Europe will tend to purchase raw materials from the cheapest suppliers instead of from within the region or from a small number of countries that have special trading relations with them. A consequence could well be increased imports from developing countries. Thirdly, however, as industrial plants become more efficient the aggregate demand for raw materials could decline. The closing down of some plants due to environmental concerns could also reduce the demand for raw materials, but may increase the possibility for trade in processed products. Fourthly, if Governments of other developed countries continue to provide incentives or tied aid, it will favour imports by Eastern Europe from these countries rather than from developing suppliers, which will be considerably disadvantaged. Finally, increased efficiency in the commodity sector of Eastern European countries may well increase the competition faced by other commodity exporters in global markets for some commodities such as nickel, phosphates and vegetable oils.

13. For many developing countries the resources needed for development have to be generated by the commodity sector. The key issue is how to maximize the contribution of the commodity sector to economic growth and transformation in commodity-dependent developing countries. It is important to ensure that developments in the commodity sector contribute effectively to generating development elsewhere in the economy as well as to reducing poverty. In this respect the backward and forward linkage between the commodity sector and the national economy needs to be strengthened in many developing countries. The potential offered by an expansion of domestic demand for agricultural products and its implications for small farmers also deserves utmost attention.

14. Given the increasing complexities of the world economy and the observations made above, the following aspects of development policies are crucial: (a) clear assessment of both agricultural and mineral potentials and the integration of the commodity sector in the overall development strategy, (b) a better understanding of industry and market structures and marketing systems at both national and international levels, (c) increased access to finance and technologies, (d) an environment of institutions, infrastructure, support services and macro-economic policy which is conducive to development, and (e) the elaboration and implementation of diversification programmes, including programmes for increased food self-sufficiency. A supportive international economic environment, including better functioning commodity markets as well as stable and more predictable conditions in commodity trade, is also indispensible. It is within this national and international framework that the potential of the commodity sector can be realized and the beneficial effects of solving traditional problems and dealing with new concerns can be achieved.

B. Short-term outlook for commodities

15. The slow down in the economies of industrialized countries that started in 1989 is continuing in 1990. It is unlikely that the relatively rapid economic growth of 1987-1989 will be achieved in 1991. In consequence, the demand for industrial raw materials is expected to be less bouyant.

16. Economic adjustment in Eastern Europe, other than the German Democratic Republic, could reduce demand for industrial raw materials by that region, at least in the short term. The demand for basic foods and tropical beverages seems likely to increase in response to the presently unfulfilled consumer demand. German unification, 2/ on the other hand, is likely to boost demand for raw materials in the short term as a result of new investments in the Eastern part. In Japan, while a slower rate of economic growth may reduce commodity demand, an expansion of public investment and a more liberalized import régime for some food items may increase imports. Trade policies of the major actors in world trade affect the production and the location of industries and thus trade patterns in both commodities and manufactured goods made from these commodities. Tensions in the Middle East clearly affect petroleum prices, make them more volatile, and are likely to cause them to increase. Exports from Iraq plus Kuwait equal 11.3 per cent of world exports, and exports from Saudi Arabia equal 13.5 per cent of world exports. Additionally Iraq plus Kuwait and Saudi Arabia account for 7.1 per cent and 8.8 per cent of the world's production respectively (1988 figures).

17. Developing countries' economic growth is likely to continue to be more buoyant than that of the industrial countries. However, the heavy debt burden faced by many developing countries and the countries of Eastern Europe will be a significant constraint on the demand for commodities by these regions. While the whole range of commodities will be affected by this constraint, it is likely that demand for essential items, such as for foods and petroleum, will be less affected than that for raw materials. From the point of view of the commodity-exporting countries, the important issue is the slowing down in the growth rate in some of the main commodity-importing developing countries of the Far East.

18. For most commodities, while demand will grow only moderately, increased supplies is expected to aggravate the downward pressure on prices. For example, some of the recent increases in prices, such as for cotton, sugar and cereals are likely to ease. Despite a long period of historically low prices, the production of commodities such as cocoa, coffee or palm oil is not expected to decline in the near future and may well increase further. For agricultural commodities, weather conditions in major producing countries may well cause disruptions to supplies and result in temporary price rises. For mineral commodities, for example copper, stock/consumption ratios remain low and hence prices in the short term are likely to be volatile whenever there is a surge in demand, even of a relatively small nature. Rising world interest rates have increased the cost of maintaining stocks and so suppliers have had an additional incentive to draw them down. Although it is difficult to predict the future evolution of interest rates, it seems reasonable to assume that they will continue to rise. This would exert a dampening effect on fixed capital investment in the major industrial countries.

II. WORLD COMMODITY TRENDS

A. Production of commodities

19. Table 1 shows per cent changes in production of various commodities for developing countries. These figures demonstrate trends discussed below.

Table 1. Change in production of main commodity groups by region

(1970 to 1988 per cent)

	World	Africa	Latin America	Developing East Asia	West Asia
Total agriculture	45	40	62	68	58
Total food	46	40	69	70	65
Minerals		-5	51	20	
Petroleum	23	-19	22	124	

Source: For agriculture and petroleum, see UNCTAD, Handbook of International Trade and Development Statistics 1989. For minerals, see UNCTAD secretariat calculations.

1. Agricultural production

20. The production of basic foods, vegetable oils, tropical beverages, and agricultural raw materials has increased steadily since 1970. During the 1970s, the developing countries increased their production at 2.9 per cent per year, a rate that was a little higher than that for the developed countries. In the 1980s, the developing countries maintained the same rate, but that of the developed countries slowed down. In the 1970s growth of agricultural production was considerably higher for Asia and Latin America than for Africa. In the 1980s the rate of growth decreased in Latin America, but increased in Africa (which brought it up to the world average), and a consistently high rate was maintained in developing Asia. In Africa, as a result of the high rate of population increase, per capita production of both food and other agricultural products declined during the 1980s as well as the 1970s.

21. Increasing productivity through improvements in agricultural technology, such as the use of high-yielding hybrids, cloning and intensification of the use of pesticides and insecticides, has been the important factor causing production to rise. Arable land increased by a little more than 5 per cent in the world over a period during which total agricultural production increased by 44 per cent. About half of the increase in land utilization was in Latin America, much of this

increase resulted from clearings in the Amazon. In developed countries particularly agricultural support policies and protectionism have been critical in attaining and maintaining high levels of production.

22. Although hunger still remains an important concern, production has grown faster than the world population. Total production of cereals increased by a little under 50 per cent during the period. The developing nations increased their production more rapidly than the developed countries, bypassing them in total output. The region with the most success in cereals was Latin America, which had a 57 per cent increase in production by 1987. The production of wheat, however, increased by most in Asia, where the green revolution was particularly effective. Sugar production increased by 45 per cent, an increase that was fairly general around the whole world. The exceptions included the Eastern European nations, which barely increased their production at all, and some Asian countries, especially Thailand, Pakistan and Indonesia, which increased their production by 100 per cent or more.

23. In the case of basic foods, such as cereals, sugar and meat, the major part of the increased output in the developing countries served to satisfy local demand; however, in developed countries, it led to a large expansion of exports. In the case of these three commodities, Europe turned into a net exporter from being a net importer, which hurt other exporters, including Argentina (cereals and meat) and Cuba (sugar), and favoured food importers.

24. Cotton production increased by 55 per cent and natural rubber by 65 per cent. Palm oil increased by 74 per cent. Coffee production was erratic, but it has increased by 40 per cent, largely as a result of the increase in Brazil. Cocoa production increased by 48 per cent and tea production increased by 91 per cent. The most sizeable of increases occurred in Brazil and Côte d'Ivoire. Increases in production in Côte d'Ivoire offset to some extent decreases in Ghana and Nigeria. During the period, Asia's share grew to about 10 per cent of world production because of the emergence of Malaysia and Indonesia as new producers. The tea market has seen the appearance of Turkey as a producer and significant increases from China, India and Kenya.

2. Mineral production

25. In the early 1970s, slow downs began to occur in the previous steady rise of world mineral production as low prices prompted a restructuring of the industry. Production started to decline in the developed market economy countries around 1973 and, after having declined by roughly 20 per cent, it levelled off in the early 1980s. Growth rates declined for the Eastern European countries and the developing countries in the late 1970s and early 1980s. The response of the mining industry in the Eastern European economies to lower prices was generally weaker than other regions, reflecting the characteristics of central planning as well as a bias towards heavy industry.

26. Alumina production rose by 72 per cent. Over half of the increase came from Australia. Significant increases came from the European Economic Community (EEC),

the Union of Soviet Socialist Republics, Eastern Europe and from Brazil, which appeared as a producer. Decreases were registered by Japan and North America. Bauxite production followed similar patterns except that the developing regions produced a larger share. The Caribbean decreased its production, while Guinea and Brazil had large increases. Copper ore production rose by 35 per cent, and tin ore production decreased by 15 per cent, with especially weak performance in the 1980s. The increases in copper production came from Eastern Europe, Asia, and especially Latin America, where Chile (by far the largest producer), Peru and Mexico all have increased their output to at least double what it was in 1970. African production, accounted mostly by Zambia and Zaire, decreased slightly. Bolivia and Malaysia were responsible for almost the entire decrease in tin output, while Brazil and China emerged as major world suppliers.

3. Petroleum production

27. Production of crude petroleum over the period 1970-1990 has increased little. The steady upward trend in production turned flat in 1973 and continued to be so except for a brief period of higher production from 1977 to 1980. Production shares changed considerably, however. The shares of the Middle East, Africa, as well as the United States of America and Canada jointly fell from 68 per cent to 47 per cent of world production. The gap was filled mainly by the USSR, Mexico, the United Kingdom of Great Britain and Northern Ireland, Norway and China.

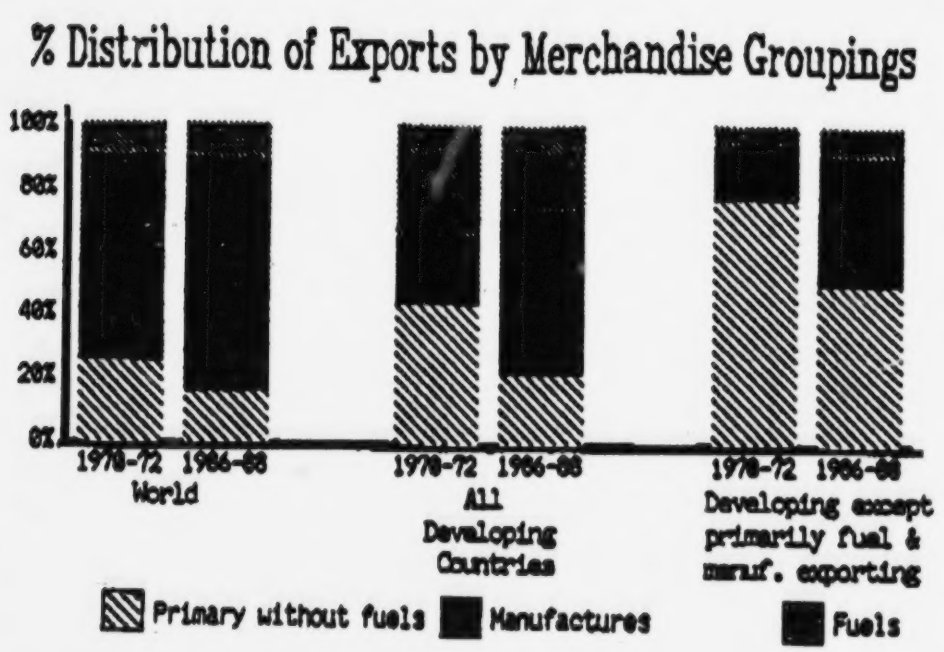
B. Trends in international trade of commodities

1. General trends

28. The volume of world trade in commodities has been growing more slowly than that for manufactured goods. Moreover, during the last 20 years, the price index of manufactured goods has increased more than that for commodities, including petroleum. The share of commodities in the value of world merchandise trade has declined. Figure 1 below shows the share of manufactured goods, commodities and fuels in world trade.

29. Over the entire period 1970-1988 there has been a steady drop in the share of non-fuel commodities in world trade. Between 1970 and 1988 this share decreased by one half, from about one third of all merchandise trade to about one sixth. In addition to the supply and demand trends that are primarily responsible for this development, an important factor has been the one-sided focus of trade liberalization policies on manufactured goods and the neglect of commodities trade. Moreover, agricultural production in industralized countries has been the subject of increasing protectionism and support policies leading to an important increase in their self-sufficiency ratios. For example, in sugar, in 1970 domestic production covered 54 per cent of consumption in the EEC, but in 1987 this ratio was 127 per cent. The comparable figures for the United States indicate a rise from 53 per cent to 81 per cent. In wheat, the changes were from 90 per cent to 130 per cent and from 184 per cent to 141 per cent, respectively.

Figure 1



Source: UNCTAD Handbook of International Trade and Development Statistics.

30. While petroleum represented a fifth of the value of world commodity trade in 1970, by 1988 it had increased to a third. This increase in share comes from the increase in relative prices of petroleum (and of course the share was much higher in the early 1980s when petroleum prices reached their peak) rather than an increase in the volume of petroleum trade. Since 1970, exports have increased rapidly from the North Sea oilfields and from the USSR, as a result of which the developing countries' share in total exports declined. It fell from 92 per cent of world exports to 70 per cent between 1970 and 1988.

2. Trends in the international trade of main non-fuel commodity groups

31. Figure 2 gives an overview of growth rates of trade volumes. Table 2 shows the shares of developing regions in exports of each of the main non-fuel commodity groups. Figures 3 (a) to 3 (e) show, for various regions, the composition of those regions' exports.

Figure 2

Annual average growth rates of international trade in real prices (1970-1972 to 1986-1988)

(percentages)

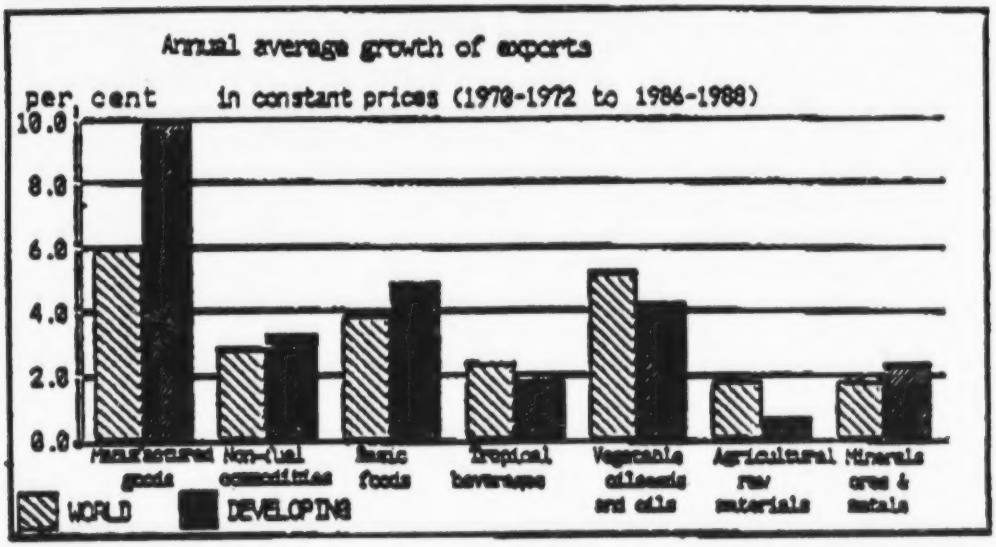


Figure 3 (a)

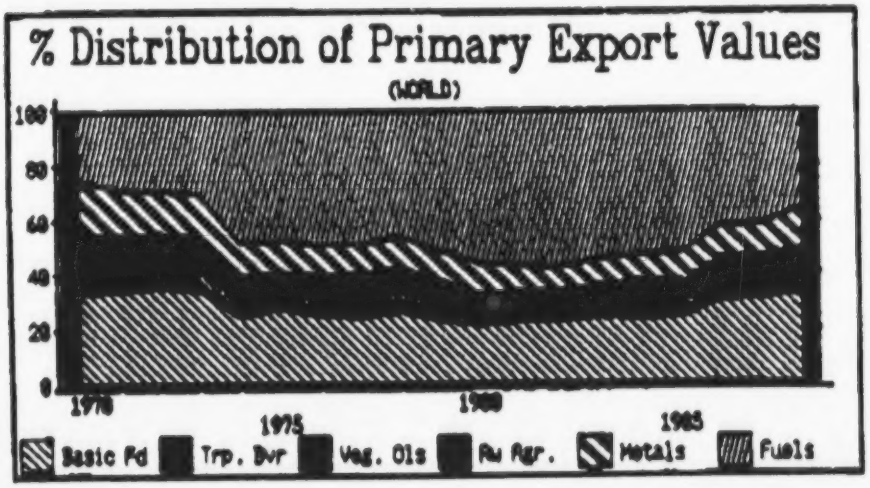


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Figure 3 (b)

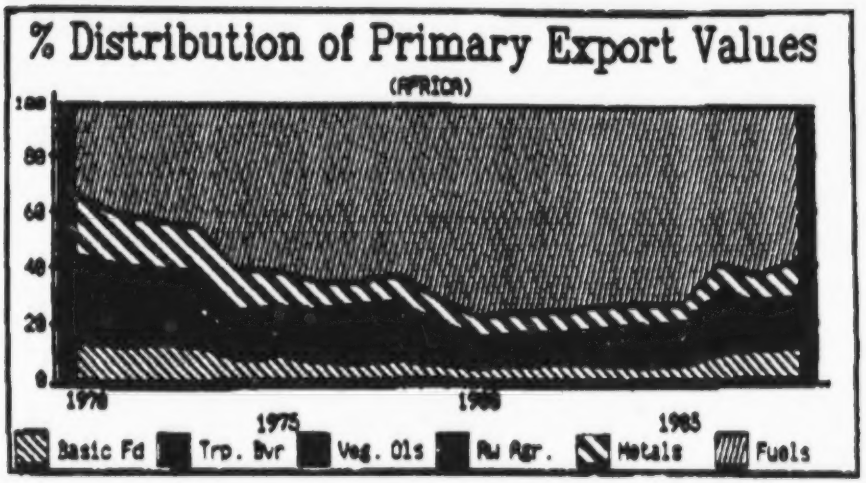


Figure 3 (c)

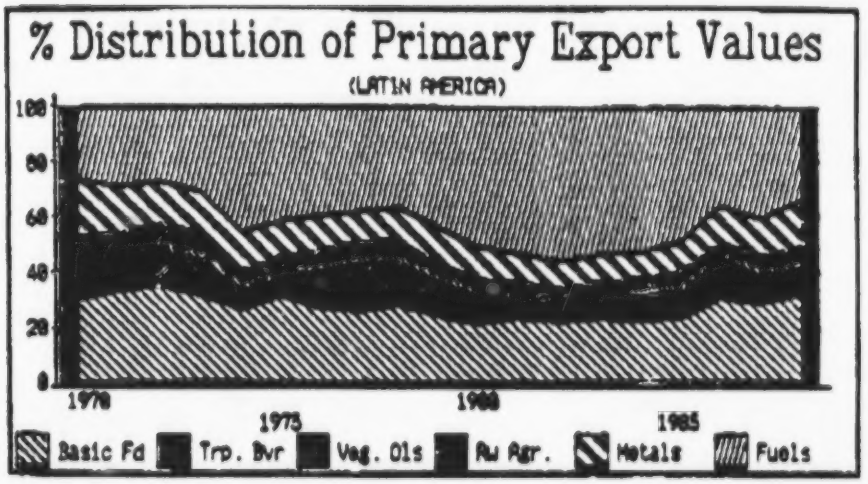


Figure 3 (d)

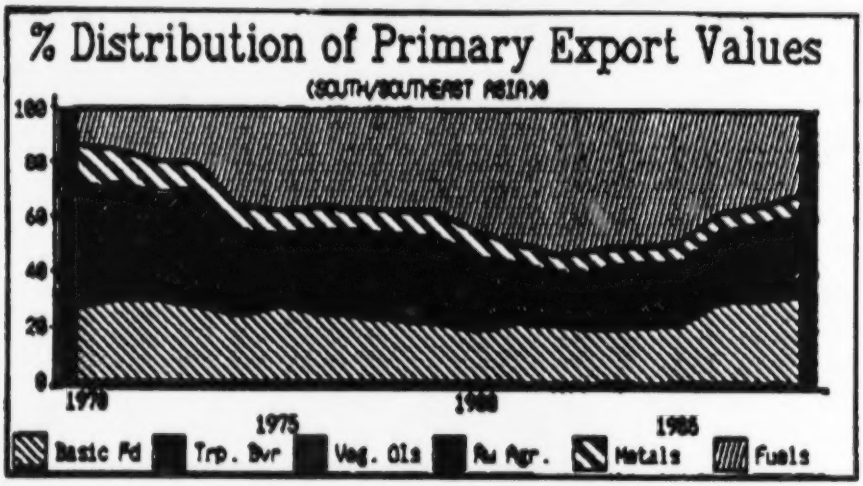
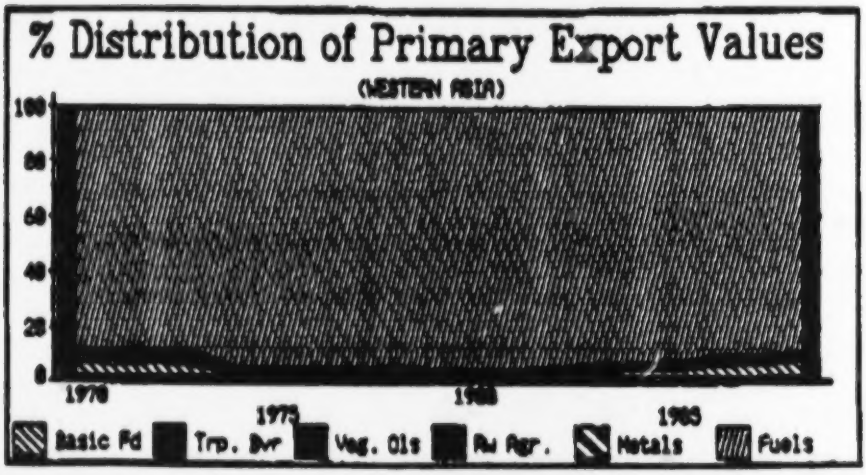


Figure 3 (e)



Source for figures 2 and 3 (a) to 3 (e): UNCTAD secretariat calculations.

Table 2. Shares of regions in exports of developing countries by principal commodity groups (1970-1972 and 1980-1988)

(percentages)

Region	Basic foods		Tropical beverages		Vegetable oilseeds and oils		Agricultural raw materials		Metals and minerals	
	1970-1972	1986-1988	1970-1972	1986-1988	1970-1972	1986-1988	1970-1972	1986-1988	1970-1972	1986-1988
Africa	21.2	15.2	36.2	31.2	38.5	8.1	25.3	16.7	34.0	20.6
America	51.4	46.8	51.1	53.5	18.3	45.4	28.9	32.6	40.8	48.4
Asia	24.6	36.7	11.9	13.8	38.8	43.4	41.7	45.8	19.5	24.9
South and South-East Asia	20.6	31.6	11.6	13.7	37.7	42.5	36.5	41.0	17.0	18.7
All developing countries as percentage of world	32.5	29.3	92.9	85.4	32.2	27.7	30.2	25.1	31.3	25.8

Source: UNCTAD data bank.

(a) Basic foods

32. The share of basic foods in commodities has increased for all groups of countries. However, the share of developing countries declined, reflecting the rapid increase in the production and exports of foodstuffs by industrialized countries. Fishery products were the most dynamic component of world trade in basic food items and particularly for developing country exporters. 3/ The increase in the importance of fishery commodities has been mostly owing to the performance of the South and South-East Asian region, in particular, Taiwan Province of China, Republic of Korea and Thailand. This, together with expanding rice exports, has been the main reason for the phenomenal increase in the share of basic foods in the export structure of Asia (see figures 3 (d) and 3 (e)) and of the increase in the share of Asia in the developing countries' exports of foodstuffs (table 2). Technological improvements, including those concerning "factory ships" and fish farming, have helped considerably in this respect.

33. The traditionally important components of international trade in basic foods, such as cereals (the commodity with the largest share in world trade) sugar and meat, have maintained their shares of around 10 per cent, 3 per cent and 3 per cent, respectively. In developing countries' exports, the importance of meat has declined from about 3 per cent to 1 per cent, but sugar and cereals continue to provide about 7 per cent and 4 per cent of commodity export earnings, respectively.

34. For Latin America, the region where these "traditional" basic foods have the highest importance in commodity exports, sugar maintained its share around 13 per cent, but that for cereals and, in particular meat, declined. For Africa, exports of food fluctuated widely from year to year. For 1987 and 1988, exceptionally large exports of coarse grains have boosted Africa's earnings from basic foods and increased the importance of this group among all commodities.

35. A significant feature of developing countries' food trade is the rising importance of Africa as a food importer. During the 1970s and 1980s, its production growth fell significantly behind population growth. In 1986-1988, it absorbed more than 4 per cent of world food exports. Africa was the only developing region whose total import bill had a larger proportion of expenditures on food in 1986-1988 than it did in 1970-1972. While, for developing countries, as a whole, this proportion went down from about 14 per cent to 10 per cent, it went up from 15 per cent to 18 per cent for Africa. Africa's importance as an export destination rose, particularly for cereals and sugar, providing increasingly important outlets for Europe and North America in the case of cereals and for Europe and Brazil in the case of sugar. Increasing import needs by the countries of Eastern Europe have also largely been met by developed countries.

(b) Tropical beverages

36. The relative importance of tropical beverages in developing countries' commodity exports has remained roughly constant between 1970-1972 and 1986-1988. The only significant change for the group as a whole is its increasing relative importance for Africa. Over this period the aggregate quantum index of African tropical beverages exports remained roughly the same, while those of all other main

commodity groups declined, leading to an increase in relative importance of tropical beverages for Africa. Meanwhile, the quantities of tropical beverage exports from other regions increased, causing Africa's relative importance among the developing regions in tropical beverages exports to decline.

37. A number of significant changes have taken place in tropical beverages trade at individual commodity/country level. These include a decline in Ghana and Nigeria in cocoa and a rise in Côte d'Ivoire, Malaysia and recently Indonesia; a decline in India and Sri Lanka of tea exports and the rise in such exports from Indonesia, Kenya and China. The expansion of cocoa exports from Malaysia has been remarkable, going from nothing to more than 10 per cent of the world cocoa market between 1970-1972 and 1980-1986. Although Indonesia is still a small exporter, its cocoa production is particularly efficient and with a very high growth potential.

38. The importance of developing countries as importers of tea increased while that of the EEC (mainly the United Kingdom of Great Britain and Northern Ireland) declined from 50 per cent to 30 per cent of the world between 1970-1972 and 1986-1988. The USSR became the world's largest importer of tea. Africa's share went up from 11 per cent to 25 per cent of world imports, mainly as a result of increased imports by North African countries. The main shifts in the pattern of cocoa and coffee trade have been among developed regions, in particular as coffee consumption in the United States declined.

39. World coffee trade takes place mainly in the raw form of green coffee. Although processed coffee in the form of coffee extracts provides more than 10 per cent of coffee export earnings for Brazil and Côte d'Ivoire, the proportion is negligible for other developing countries. In the world trade of cocoa and cocoa products, including chocolate, processed and manufactured forms constitute a higher aggregate value than cocoa beans and comprise an increasing share of total trade. Developing countries have been able to make only very small inroads into world chocolate trade on account of both technical and commercial reasons. Processed forms such as cocoa powder and butter, however, have become significant, in particular for Latin America, where export earnings from processed forms have recently surpassed those from cocoa beans.

(c) Vegetable oilseeds and oils

40. The small increase in the share of vegetable oilseeds and oils in commodity exports of developing countries must be seen in the light of two factors affecting the trade patterns for this commodity group. The first is that, in spite of the increasing relative importance of these commodities for developing countries, the share of industrialized countries in world vegetable oils exports has risen between 1970-1972 and 1986-1988. In this respect, as in the case of basic foods, support policies have been critical. The second factor is the opposite trends observed for Africa and Latin America. While the share of the former in world exports declined by about 30 percentage points, that of the latter increased by the same amount. In Africa, palm oil production and exports of Nigeria plummetted and in Latin America the production and exports of soyabean oil, in particular by Argentina and Brazil, surged. In the Asian region, there was a phenomenal increase in the production and exports of palm oil by Malaysia and to a lesser extent Indonesia. Successful

research and development activities based on earlier research in Africa were instrumental in this expansion. Improving the substitutibility of palm oil for other vegetable oils, as well as its storability, complemented by concerted marketing efforts have also been important factors.

41. Vegetable oils became an increasingly important component of commodity imports by developing countries, in particular India. Regional trade expanded, particularly within Latin America and in South and South-East Asia.

(d) Agricultural raw materials

42. The share of agricultural raw materials declined both in the world commodity trade and in total commodity exports of developing countries. The decline was greater in the case of developing countries than that of the world as a whole and was accounted for, almost totally, by cotton. The volume of developing countries' cotton exports declined. This is in part a reflection of increased local processing, in countries such as Brazil and Turkey. Recurrent production problems in the main cotton-exporting countries of Africa also reduced developing countries' cotton exports. Unlike cotton, the relative importance of natural rubber in agricultural raw materials trade was maintained and that of tropical timber rose slightly.

43. World trade in jute and hard fibres fell drastically as demand faltered, particularly in developed countries, owing to competition from synthetics. In the case of jute, which is mostly used for storage and transportation, the progress of bulk handling that did not need jute bags was a crucial development.

44. Being inputs to industry, imports of agricultural raw materials are inextricably related to industrial activity. In this respect, rapid industrialization in South and South-East Asia has been crucially important, raising the share of this region in world imports from 5.5 per cent to 7.4 per cent between 1970-1972 and 1986-1988. Cotton imports expanded most rapidly and the region became an increasingly important destination, in particular for Pakistan. The growth of cotton imports by the Republic of Korea, Hong Kong, Taiwan Province of China and Thailand is the equivalent of more than one half of the increase in world imports over two decades.

45. Developing countries, in particular in Asia and Latin America, have considerably increased their exports of textiles and clothing. The proportion of export earnings from processed forms in their total export earnings from raw cotton, yarn and fabrics rose sharply. 4/ This took place in spite of the managed nature of world textile trade, which prevented even bigger increases for textile exports from developing countries. For industrialized countries, however, the proportion of raw cotton in exports of raw and processed forms increased, reflecting the relatively slower expansion of textile industry in these countries.

46. In the case of rubber as well, there was a shift in export earnings from raw to processed forms. In 1986-1988 developing countries export revenues from tires and rubber articles equalled almost half of their export earnings from raw natural rubber. In 1970-1972, the corresponding proportion was less than one tenth.

Unlike many cotton producers, however, the main producers of natural rubber, apart from Sri Lanka, have not developed their processing industries. Processed exports by developing countries originate mainly from those importing the raw material.

47. Trade in processed forms of tropical timber also expanded faster than in raw forms. Latin American countries, in particular Brazil, have traditionally exported processed forms. Processed forms are replacing log exports in Asia as well, where the main producing countries recently introduced measures banning or strongly discouraging exports of raw timber. These have been very effective in Indonesia, which was first to implement them and now exports only processed forms.

(e) Metals and minerals

48. Between 1970-1972 and 1986-1988, metals and minerals became relatively less important among commodity exports for all developing regions. Meanwhile, developing countries as a group lost some of their relative importance in the world as exporters of these products. Here, again, the performance of Africa differs from that of Asia and Latin America. Metals and minerals exports from the latter two have expanded in tandem with the world exports, while those from Africa lagged behind. In Latin America, new operations replaced some old ones; for example, declining output of bauxite in the Caribbean region was made up by new production in Brazil. In Africa, however, factors such as the exhaustion of high quality reserves, (e.g., of Mauritania's iron ore) or recurrent production problems (e.g., those caused by foreign exchange shortages in Zambia) affected production and exports.

49. Between 1970-1972 and 1986-1988, Japan and the newly industrializing countries of South and South-East Asia became inceasingly important destinations for metals and minerals exports. Between 1970-1972 and 1986-1988, the share of Japan and South-East Asia in world copper imports went up, respectively, from 14 per cent to 31 per cent and from 0 per cent to 6 per cent. In the case of iron ore, they rose from 41 per cent to 44 per cent and from 0 per cent to 5 per cent, respectively. Although suppliers such as Australia for iron ore and Papua New Guinea for copper, which are relatively close to this region, have captured major shares in these markets, Zambia has been successful in exporting substantial amounts of copper and Brazil, iron ore.

50. World trade in metals and minerals is taking place more and more in processed forms. For example, while in 1970-1972 the aggregate value of world iron ore trade was 1.5 times that of processed forms (up to and including iron and steel ingots), the situation was exactly reversed in 1986-1988. This has been basically the result of a steep increase in the processed exports of newly industrializing countries in South and South-East Asia which import the raw material. Among the main iron ore producing developing countries, Brazil and Venezuela increased the share of their processed exports considerably, while the African producers continue to export almost exclusively ore.

51. The phosphate sector provides another example of increased processing activities in developing countries. Between 1970-1972 and 1986-1988, the proportion of export earnings in the phosphate sector provided for developing countries by processed forms, namely, phosphoric acid and superphosphate, went up from

12 per cent to 34 per cent. Among the main producers, Togo did not follow this trend, continuing to export phosphate rock. In the case of copper and bauxite/aluminium exports of items at the "worked" stage earn for developing countries only 10 per cent and 16 per cent, respectively, of their total export revenues of the commodity. Exports are concentrated in the middle stages such as refined copper and alumina.

III. DEVELOPING COUNTRIES' COMMODITY DEPENDENCE

A. Commodities in total exports by developing countries

52. As seen in figure 1 (see sect. II above), the share of commodities in developing countries exports has declined parallel to that in world trade. In 1986-1988, developing countries as a whole obtained 22 per cent of their export earnings from commodities as compared to 44 per cent in 1970-1972. When 21 major exporters of petroleum and 7 major exporters of manufacturers 5/ are excluded, the decline is from 77 per cent to 50 per cent. In spite of this remarkable decline, commodities continue to provide half of total export earnings for the bulk of the developing world, which does not export principally petroleum or manufactures.

53. Table 3 shows that developing countries of Latin America obtain the highest proportion of their export earnings from commodities. Excluding major petroleum and manufacture exporting countries, Latin America has in fact replaced Africa as the most commodity-dependent region. This is attributable to the increased manufactured goods exports from some African countries, such as Benin, Mauritius, Morocco and Tunisia.

54. Another way of looking at the importance of commodities for particular regions is to see for how many countries more than a certain proportion of export earnings is provided by commodities. On this account Africa remains considerably more commodity dependent than Latin America because 27 out of 51 African countries (53 per cent) obtain more than 70 per cent of their export earnings from commodities, while in Latin America 10 out of 32 countries (31 per cent) have a similar degree of dependency.

55. The precipitous decline in the importance of commodities for the Asian region is a reflection of the vertiginous increase in manufactured exports rather than a stagnation in commodity exports. Asian countries, and in particular those in South and South-East Asia, were also very successful in increasing exports of various commodities. 6/

Table 3. Export structure by main merchandise groups: developing regions 1970-1971 and 1986-1988

(percentages)

	Non-fuel commodities		Manufactured goods		Fuels	
	1970-1972	1986-1988	1970-1972	1986-1988	1970-1972	1986-1988
Africa	55.8	32.9	7.3	16.5	36.9	50.6
Africa a/	87.3	59.5	10.0	29.0	2.7	11.5
America	64.7	45.3	11.4	32.2	23.9	22.5
America a/	79.2	67.4	10.2	22.8	10.6	9.8
Asia	26.6	13.1	31.6	62.1	41.8	24.8
Asia a/	67.0	37.0	29.7	55.5	3.3	7.5
South and South-East Asia	41.0	15.0	50.8	77.0	8.2	8.0
South and South-East Asia a/	66.8	37.9	30.5	54.3	2.7	7.8

Source: UNCTAD data bank.

a/ Excluding major exporters of petroleum and of manufactures.

56. Over a 20-year period many countries have significantly reduced their commodity dependence. Success stories in this respect include Brazil (from 92 per cent in 1966 to 55 per cent in 1987); the Philippines (from 84 per cent to 42 per cent); Thailand (from 93 per cent to 47 per cent); Haiti (from 100 per cent to 43 per cent); Mauritius (from 97 per cent to 41 per cent); Zimbabwe (from 89 per cent to 58 per cent); Tunisia (from 88 per cent to 38 per cent); and Morocco (from 97 per cent to 49 per cent); some 25 other countries have also seen the part of commodities in their foreign export earnings declining by over 25 percentage points. Timber, hides and skins, cotton and phosphates are products for which local processing increased considerably in developing countries. In some cases, policy measures such as bans on the exports of raw materials - especially in the cases of timber and of hides and skins - have been critical in leading to an increase in processing before exports. Nevertheless, since the early 1970s, almost one third of developing countries (among which are 14 least developed countries and 10 countries that became dependent on petroleum exports) have experienced a significant increase in dependency.

B. Dependence on a small number of commodities

57. Many developing countries are heavily dependent on only one or two commodities for their export earnings. In the period 1982-1986, 50 out of 84 developing countries for which data were available depended on one or two commodities for over half of their export earnings. Naturally, dependance on petroleum was a major factor and 15 of the above 50 countries are major petroleum exporters.

58. Countries which are strongly dependent on only one commodity are even more vulnerable to price fluctuations on the world market or to domestic supply problems affecting export volume. Fifteen countries (eight Asian oil producers, and seven African countries of which four are oil exporters) depended for over 80 per cent of their export earnings on only one product in the period 1986-1988. Twenty-one others, 16 of which are least developed countries, depended on only one commodity for 50 per cent to 80 per cent of their export income. In most cases, this commodity was coffee, and the second most common one was cotton.

59. Broadening the range of exported commodities - horizontal diversification - reduces vulnerability. Indeed, many countries diversified horizontally. In two thirds of the least developed countries, for instance, the range of exported commodities increased from 1970 to 1985. However, in most cases the newly produced products - although signifying a potential for diversification - do not as yet form a large part of export earnings. Moreover, horizontal diversification had most success in the already more advanced economies like Malaysia, Indonesia and Brazil, where diversification was often into commodities which are the traditional export products for other countries (cocoa, coffee and palm oil) or compete with them (soya competing with other vegetable oils), thereby adding to the risk of over-supply on the world market.

60. For many countries, although changes took place and the relative importance of the predominant commodity was reduced, overall dependence did not change significantly or increase. In terms of commodities, apart from fuel commodities, coffee has become increasingly important in several countries (Kenya, Madagascar, Rwanda, Uganda, Nicaragua, El Salvador, among others), while cotton has become very important in several West African countries. Chad and Somalia saw their dependence on the export of live animals considerably increasing, while the role of spices became much larger in the Comoros, Madagascar and Bhutan.

C. Dependence on crops whose trade is illegal

61. As a result of the insatiable demand for drugs abroad and rural poverty at home, some developing countries are becoming increasingly dependent on foreign exchange from commodities whose international trade is illegal. Estimates of retail drug sales in 1987 include one estimate of approximately $300 billion for the entire world and another of $106 billion for retail drug sales of heroin, cocaine, and marijuana alone in the United States and $16 billion in Europe (in 1988 total exports of all developing nations were valued at $579 billion and their non-fuel commodity exports at $120 billion). While the developing nations in which the raw materials are grown probably only see part of this amount, drug income is

still large with respect to total exports for several of them. Various estimates indicate that drug export revenues for Peru, Bolivia and Columbia could be between $1.3 and $2.8 billion, $1.4 and $2 billion, and $7 and $15 billion, respectively. Compared with total recorded export revenues for those countries of $2.7 billion, $0.5 billion and $5 billion, respectively. Thus, for two of them export earnings from drugs exceeded their total recorded export revenues.

62. It has been argued that prices for farmers' traditional crops, especially coffee and cocoa, have fallen so much in recent years that it has been easier to induce them to turn to growing coca. Income per hectare from coca production is estimated to be between $1,500 and $3,500 per year, while that from coffee varied between only $700 and $1,000 even before its decline in 1989. Growing coca leaves not only pays better than other crops, but because it is harvested four times a year and comes from a hardier plant it provides a more stable income.

63. Two explanations may be behind the recent fall in the price of coca leaves. The first is the knowledge by drug traders that to induce farmers to grow coca they only need to pay a slightly higher price than for traditional crops whose price has decreased. Secondly, anti-drug enforcement activities may have made it more costly to distribute cocaine, putting a downward pressure on the prices paid to farmers.

D. Dependence on food imports

64. Commodities are exported so that goods that are difficult to produce in a country can be obtained from abroad. When exporting countries suffer from a decline in export volume and/or an adverse change in prices they are able to buy fewer of their imported goods than they could before. A decrease in purchasing power is worse when the imported goods that begin to move out of reach are food items that are necessary for survival. A key variable, in particular for the poorer nations, is the amount of their export earnings that must be spent on basic foods.

65. The fraction of world merchandise trade that is accounted for by essential food items (basic foods and vegetable oils) has decreased from 13 per cent in 1970 to 10 per cent in 1980 and 9 per cent in 1987. Non-petroleum exporting developing countries decreased their dependence at a faster rate. Their food imports to total export ratios in 1970, 1980, and 1987 were 16 per cent, 12 per cent, and 8 per cent. South and South-East Asian countries had the most success, decreasing their ratio from 18 per cent in 1970 to 6 per cent in 1988. This was caused by increases in both export earnings and food self-sufficiency ratios. The Africa region, however, increased the proportion of export earnings allocated to food imports. The ratio rose from less than 15 per cent in the 1970s to more than 20 per cent in the late 1980s, almost triple of what it was for the other developing countries.

66. Food consumption in terms of calories has increased slightly since 1970 in the developed countries, while protein consumption increased, suggesting improved diets in these countries since protein is usually a part of more nutritious and more expensive foods. In the developing countries as a whole, calorie consumption

increased until 1980 when it stalled. Protein consumption, however, increased through the 1980s for the developing countries. The African countries have had little improvement in diets since 1970, both in terms of calories and in terms of protein, and the situation actually deteriorated in the 1980s. The Middle East countries had the most dramatic improvements, mainly because their oil income allowed them to buy more food and other Asian countries did well by increasing their food production during the green revolution of the 1970s.

E. Constraints on diversification

67. The opportunities for developing countries to diversify their commodity exports and to increase their participation in commodity processing, marketing and distribution activities are often limited by an interrelated set of domestic and external factors. In fact, these factors are often such that, in the existing world market situation of slow growth in demand and increased competitiveness among suppliers, a country often has a short-term comparative advantage primarily in its traditional export products. However, considering the vulnerability resulting from dependence on only a few export products countries cannot afford not to diversify their production. Thus, horizontal and vertical diversification is a long-term development objective for most developing countries, although only a limited number have been able to realize this objective.

68. Although constraints to diversification vary in intensity from one country to another and also from commodity to commodity, several basic factors and conditions can be identified. Certain factors are country-specific and largely beyond the direct control of a Government, including, for example, natural resource endowments, geophysical conditions, the size of a country and the size of population and labour force; others are country-specific but able to be influenced significantly by government actions, often with international assistance, such as the state of infrastructure, investment climate and human resources development. Yet others are external to a country, such as market-access conditions, access to finance and information, and world industry and market structures. The latter factors are determined primarily by actions of foreign Governments and their enterprises.

IV. PRICE AND INCOME TRENDS

A. Price behavior of specific commodities

69. As of 1990 prices of almost all commodities are higher than they were in 1970 in terms of current dollars. This pattern is difficult to interpret, however, as the dollar has lost purchasing power and the prices of imported goods purchased with export earnings from commodities have changed over the same period. The price index for all commodities, including fuels, expressed in real terms, that is after deflating them by the United Nations index of prices for manufactured goods exported by developed countries, has increased by 40 per cent since 1970. This increase, however, is owing entirely to petroleum, which constitutes a major part of world commodity trade. The price index for principal non-fuel commodities exported by developing countries declined by 40 per cent in real terms.

70. The real index of basic food prices has followed a steady downward trend over the past 20 years, decreasing to 72 per cent of its 1970 level. Rapid production increases that have outpaced demand contributed to this fall. Compared with other non-fuel commodities' price performances, however, food prices did well.

71. Within basic foods, prices for the main cereals, wheat, maize and rice, which is the most important export cereal for developing countries, follow broadly similar trends, largely influenced by the agricultural policies of the United States and the EEC. After two peaks around 1973-1974 and 1979-1980 and two troughs around 1976-1977 and 1987, they are rising again, spurred by low world stocks and slightly reduced support levels in industrialized countries. Wheat prices have risen compared to rice and maize since 1970.

72. Figure 4 shows real prices for wheat, sugar, rice and beef. Sugar has had a very volatile price path with two exceptional price peaks. Its price skyrocketed in 1973 and 1979 as high petroleum prices made the use of alcohol as a fuel more feasible. Its price has recently risen as a result of high demand and crop failures, but production and stocks are low. Beef prices have done poorly, decreasing by 51 per cent with respect to manufactures. The only bright period for beef producers was in 1977 and 1978 when prices almost doubled. Both beef and sugar have suffered from health-oriented diet trends in the developed countries.

73. Banana prices, which have large seasonal fluctuations, performed better than prices of most other commodities, keeping roughly even with manufactured goods prices. Beef is facing tough market competition from chicken and fish, since they have less fat and fewer calories, and sugar is facing not only decreased demand from weight-conscious consumers in developing countries, but also competition from newly developed artificial sweeteners, such as aspertame, and from vegetable oil sweeteners.

74. As seen in real terms in figure 5, tropical beverage prices fluctuated widely. The real price index for 1989 was 37 per cent lower than for 1970 and the 1990 average is 60 per cent lower. Production of tropical beverages has increased faster than demand, in spite of a rapid increase in the latter. Although tropical beverages are produced in many developing countries, weather conditions in Brazil have a vital importance in the determination of price fluctuations for coffee and to a lesser extent cocoa. Frosts in 1973 and particularly in 1976 caused massive price increases, especially for coffee. Between April 1975 and April 1977, the price of coffee increased from five to eight times, depending on the type, and the price of cocoa tripled. In 1986, it was news of a drought that caused prices to increase sharply. Currently prices of all three tropical beverages are significantly lower in real terms than they were in 1970. Tea prices have done worst, declining by 56 per cent.

75. Tropical beverages have had the most volatile prices of all commodities. This volatility could decrease, however, as production spreads out over many countries and the effect of weather conditions in one area becomes less important.

Figure 4

Real prices of basic foods

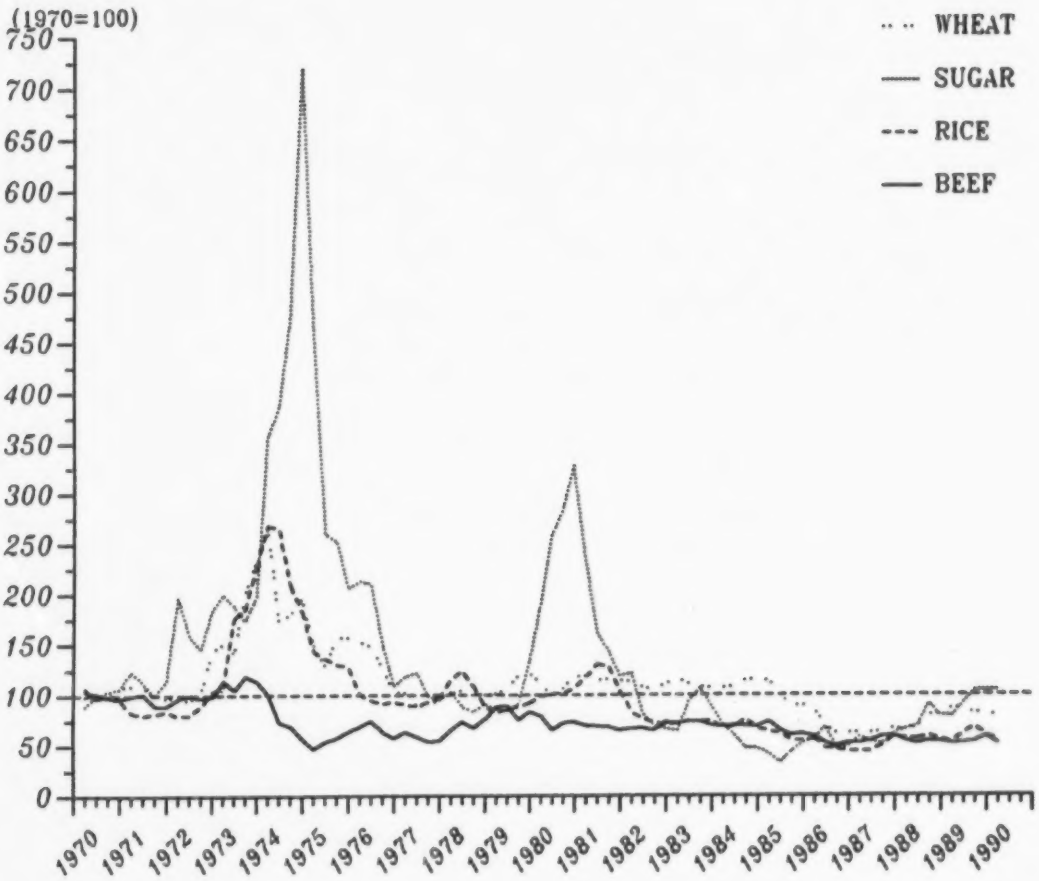
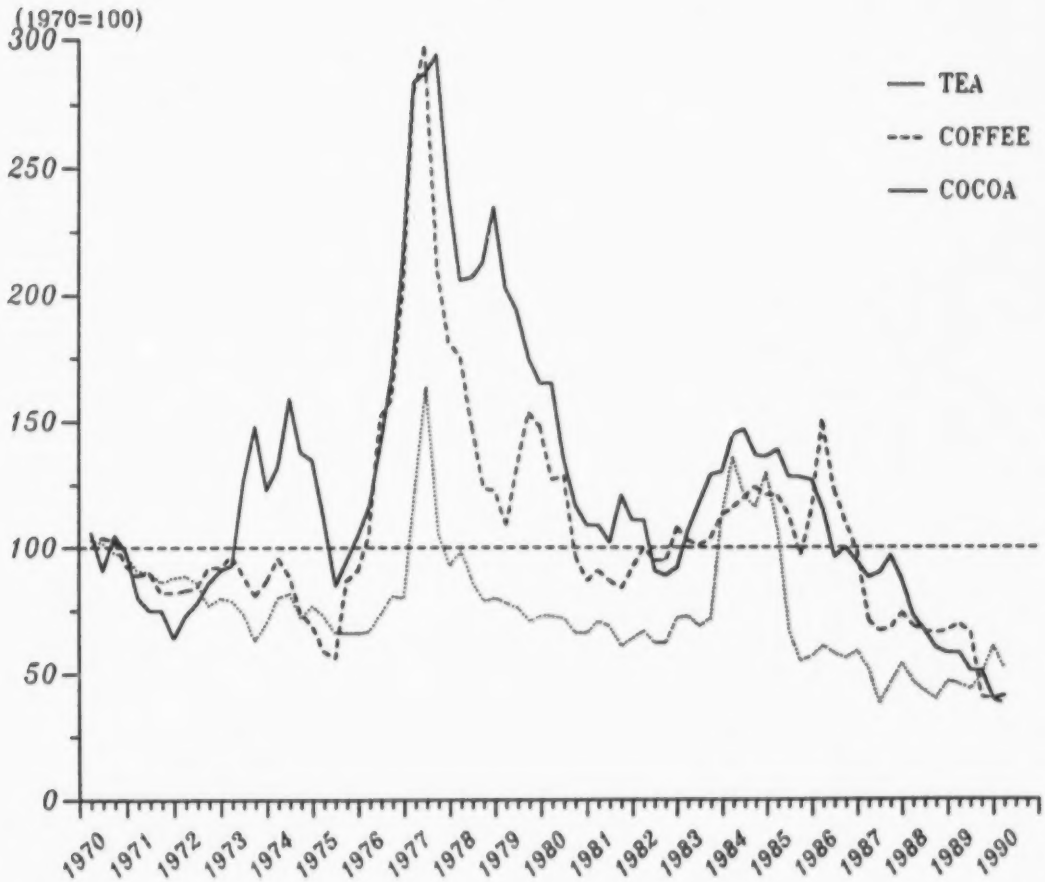


Figure 5

Real prices of tropical beverages



76. The real price index for vegetable oils decreased by more than that for any other commodity group. The weak trend in the price has been caused mainly by steadily increased production, in the face of demand which is growing more slowly. In 1990 they were only at 36 per cent of their 1970 level in terms of manufactures and had just risen from a trough in 1985-1986. Vegetable oils are becoming more and more substitutable, hence the prices of the various products usually vary together. This is seen in real terms in figure 6. Variability in prices over the past few years has been caused mainly by the United States drought, instability in the Indonesian coconut industry and output variations in the Malaysian palm industry.

77. The real price index of agricultural raw materials as a group decreased, but only by 26 per cent, meaning that they did about as well as food prices. The good performance of these prices compared with other commodity prices reflects the smaller rate of increase of agricultural raw material production and a steady expansion of demand for the principal items in the group, such as cotton, natural rubber, and tropical timber, as seen in real terms in figure 7. Timber is one of the rare commodities whose real price has increased. Rubber and cotton prices, which experienced peaks in 1973 and 1979, have experienced weaker long-term price trends than the average non-fuel commodity. The volatility of agricultural raw material prices, especially for timber, has been low compared to those of other commodities.

78. The weak performance of the prices of minerals, ores and metals compared to other commodities over the period 1970 to the present has been punctuated by several hikes in the price of particular items. The real price index of minerals, ores and metals has declined to 51 per cent of its value in 1970. The main cause for this drop in price is a decline in the mineral intensity of output, particularly in developed countries. Speculation that the world was likely to enter a period in which growth would be constrained by the limited supply of minerals may have helped maintain high prices for a time, but this view was largely abandoned in the 1980s.

79. Beginning in the 1970s, however, the ratio of mineral, ore and metal production to world output began to decrease. The causes of this "demineralization" of world output has been attributed to substitution for minerals and economy of usage. Cars, for example, are lighter and use more plastics and fewer heavy metals. Copper telephone wires have been replaced by satellite transmission and fiber optic cables.

80. Most metals, ores and minerals are energy intensive in their production. The oil shocks therefore caused pronounced hikes in their prices, especially for aluminum, seen in terms of manufactures in figure 8, the price of which approximately doubled in response to each oil shock. Aluminum also experienced a price peak in 1988. The long-term trend has been favourable, with aluminum prices almost keeping up with manufactures. Another metal that has done relatively well is copper. Its prices also peaked when oil prices rose, and again in 1987-1988. Lately there have also been some cost-saving innovations. Tin prices remained strong until 1985 when the International Tin Agreement collapsed. Collective actions by producers has lifted prices back up.

Figure 6

Real prices of vegetable oils

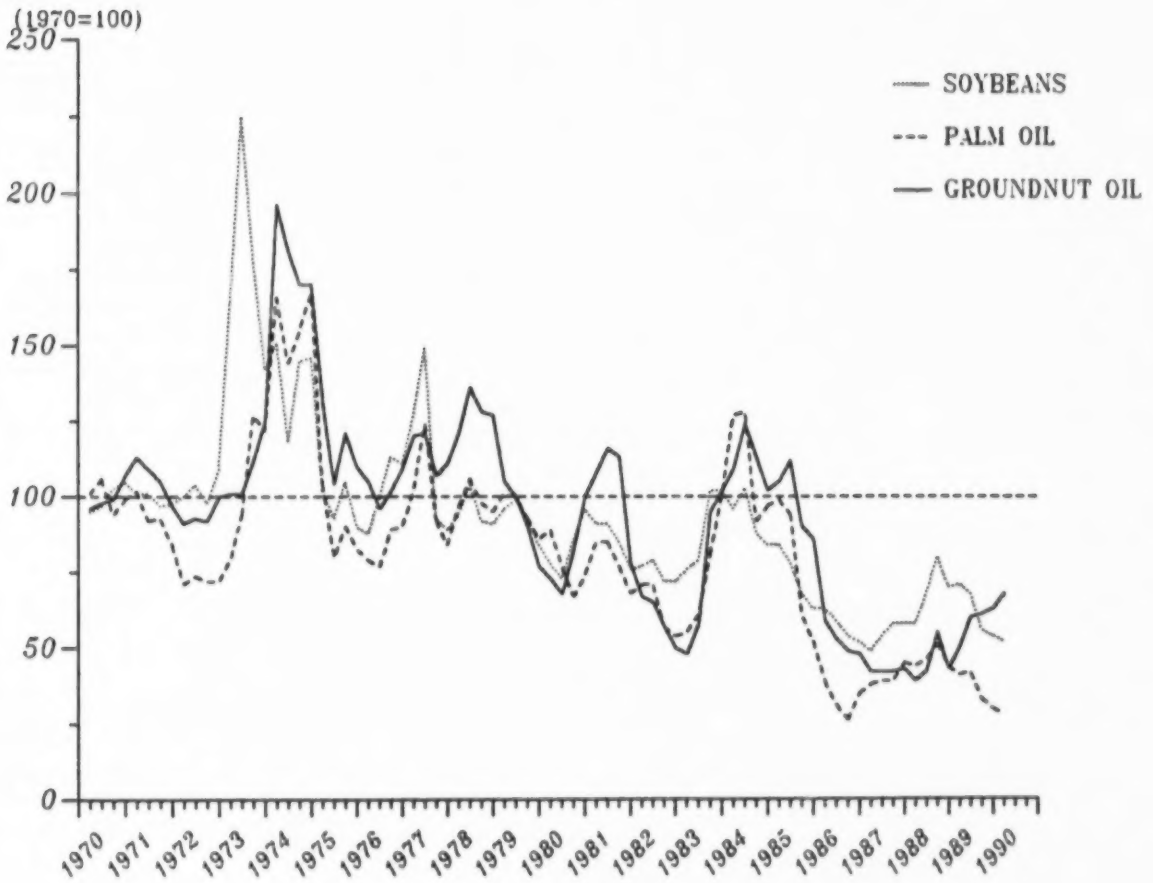


Figure 7

Real prices of agricultural raw materials

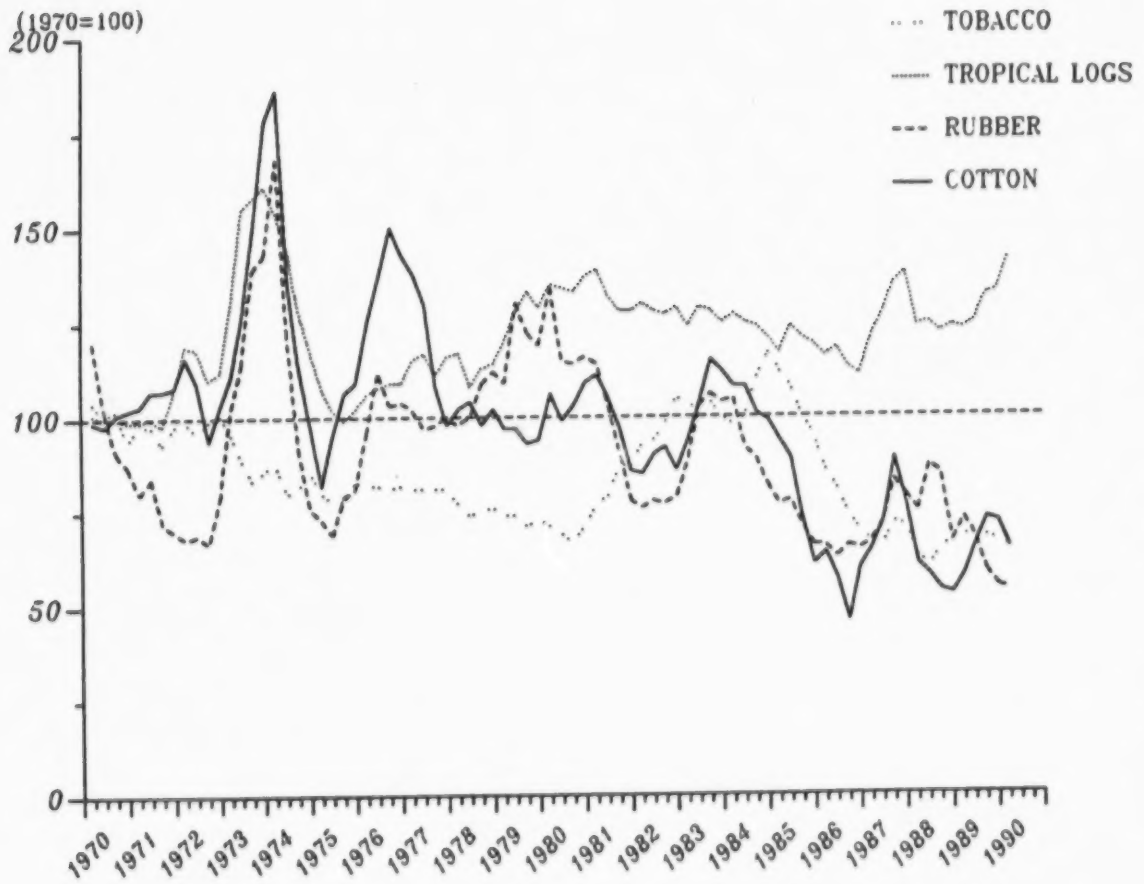
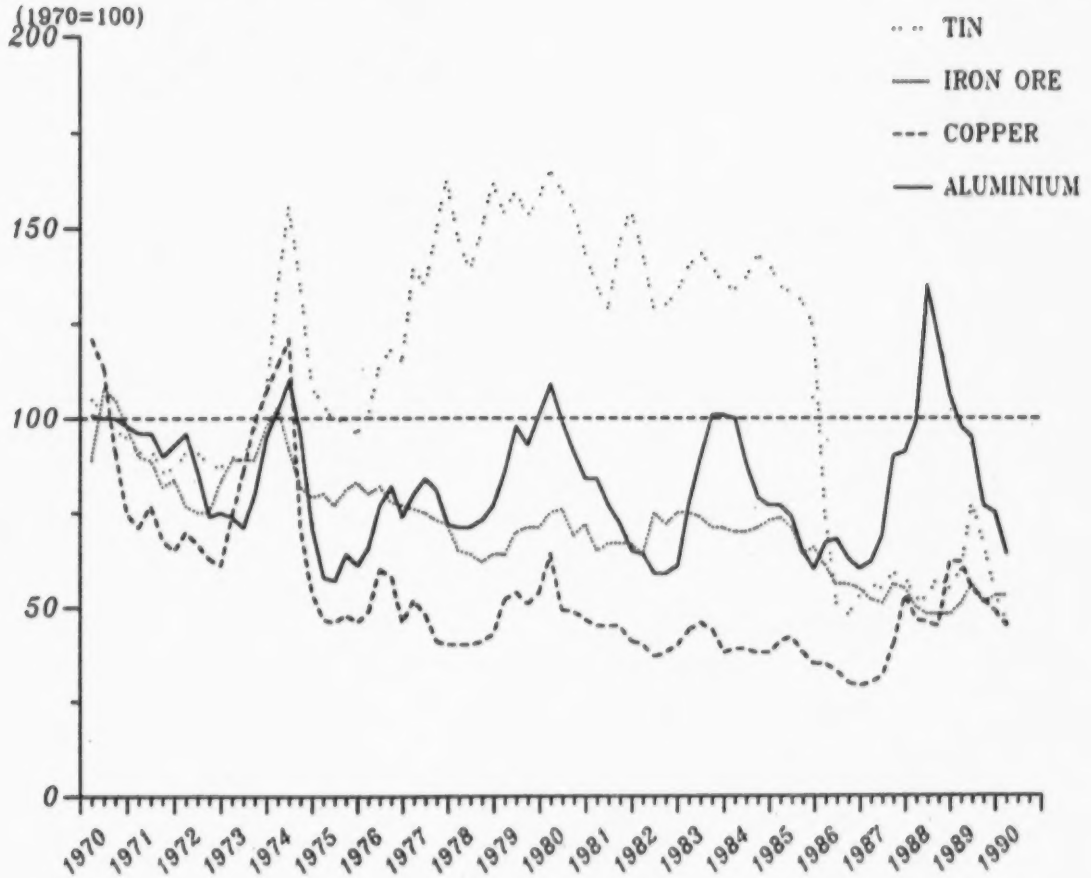


Figure 8

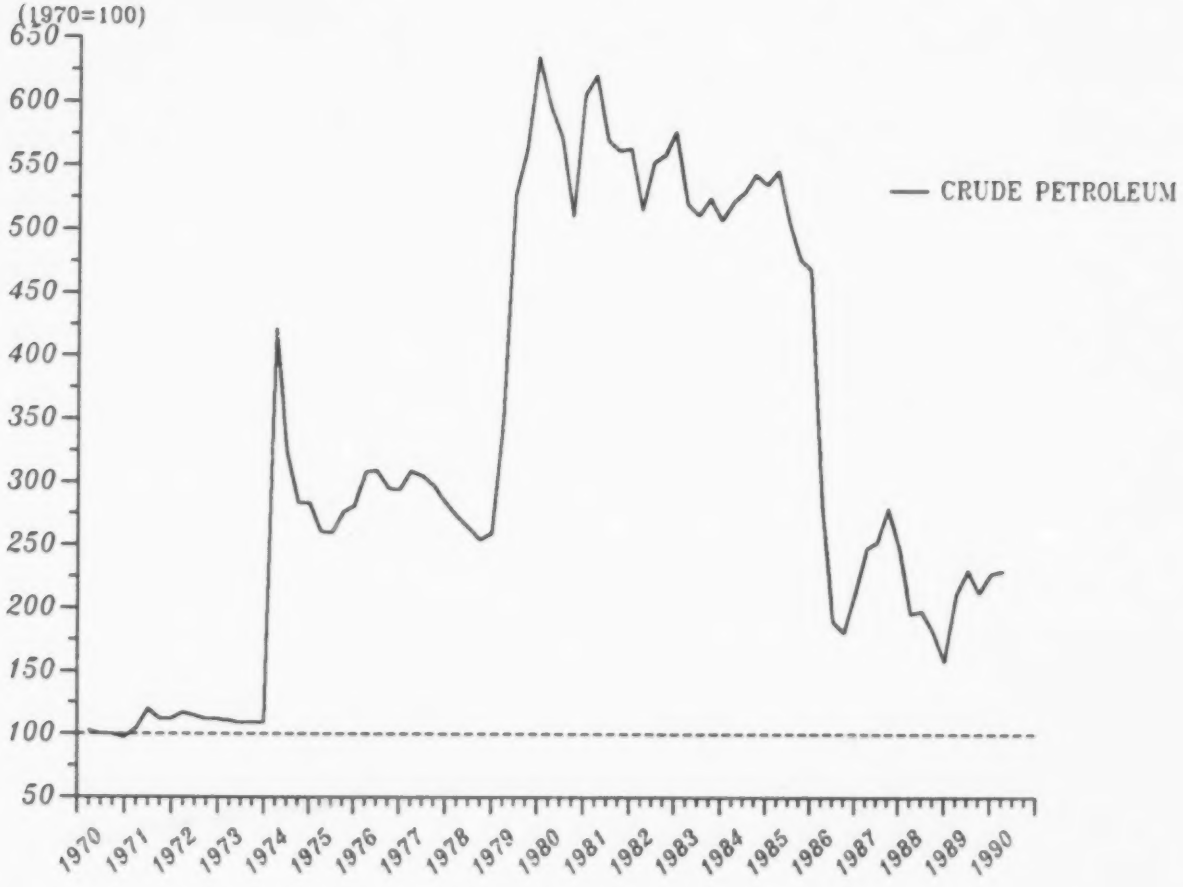
Real prices of metals, ores and minerals



81. Figure 9 shows the real price of petroleum for the last two decades. Since 1970 the price of petroleum has approximately doubled in terms of manufactures. No other commodity group increased its real price index during this period. The price of crude petroleum over the last two decades rose sharply on two occasions. In 1973 the real price of crude petroleum skyrocketed, but then fell steadily until 1979 when another increase took place following the outbreak of the Iran-Iraq war. The high price was maintained until late 1985, when the oil market had weakened because of both supply and demand factors. The developed market economies had adopted methods of economizing on and substituting for petroleum consumption. Meanwhile, encouraged by the high prices, other suppliers had entered the market. As the price eroded, petroleum producers, in an attempt to maintain a constant income from petroleum production, expanded output further, but this caused prices to fall further.

Figure 9

Real prices of crude petroleum



B. Purchasing power of developing countries' commodity exports

82. While real prices of non-fuel commodities exported by developing countries have followed a downward trend, the export volumes of these commodities have followed an upward trend. The result is that, by the late 1980s, developing countries could buy the same amount of imported goods as they did in 1970.

83. There were disparities among the regions, however, as seen in table 4. These disparities arose not only from differences in quantities exported, but also from differing impacts of price changes on import and export baskets. In terms of commodity export purchasing power, Asia did particularly well. There was an increase of 15 per cent over this period. The best improvement was in food, which experienced a 55 per cent increase in export purchasing power as a result of a 166 per cent increase in quantity exported, Latin America experienced a moderate decline of 14 per cent, suffering from price decreases that counteracted increased quantities exported of basic foods and metals, ores, and minerals (of 50 per cent and 63 per cent), as well as from a 21 per cent decrease in output of agricultural raw materials.

Table 4. Change in commodity export purchasing power deflated by import unit values (1970-1972 to 1986-1988)

(percentages)

	Purchasing power				Export volume			
	All developing countries	Africa	Asia	Latin America	All developing countries	Africa	Asia	Latin America
Food	115	79	156	86	175	92	266	150
Tropical beverages	106	100	116	92	126	106	205	121
Vegetable oils	83	17	87	170	300	52	317	625
Agricultural raw materials	85	54	87	79	114	85	136	79
Metals, ores and minerals	89	51	103	87	134	101	132	163
All non-fuel	99	64	115	86	151	96	197	151
Fuel	158	154	147	98	71	71	65	98

84. Africa experienced a large decline of 36 per cent in its commodity export purchasing power, caused, in part, by stagnant or decreased production in all commodity categories. The greatest income decreases were in agricultural raw materials (46 per cent) and in metals, ores and minerals (49 per cent).

85. Purchasing power of fuel exports grew for the developing nations by 58 per cent over this period. All regions, even Africa, shared in this increase, but of course this benefited only the handful of oil-producing nations in those regions.

C. Instability in export earnings and the finance provided

86. Instability in the commodity export earnings of developing countries has long been substantial and has intensified since the early 1970s. Instability, when high and sustained over a long period of time, has adverse effects on the commodity producing sectors and the economy of developing countries as a whole. Demand and supply factors contribute to such instability, which is considerable for both commodity volumes and commodity prices.

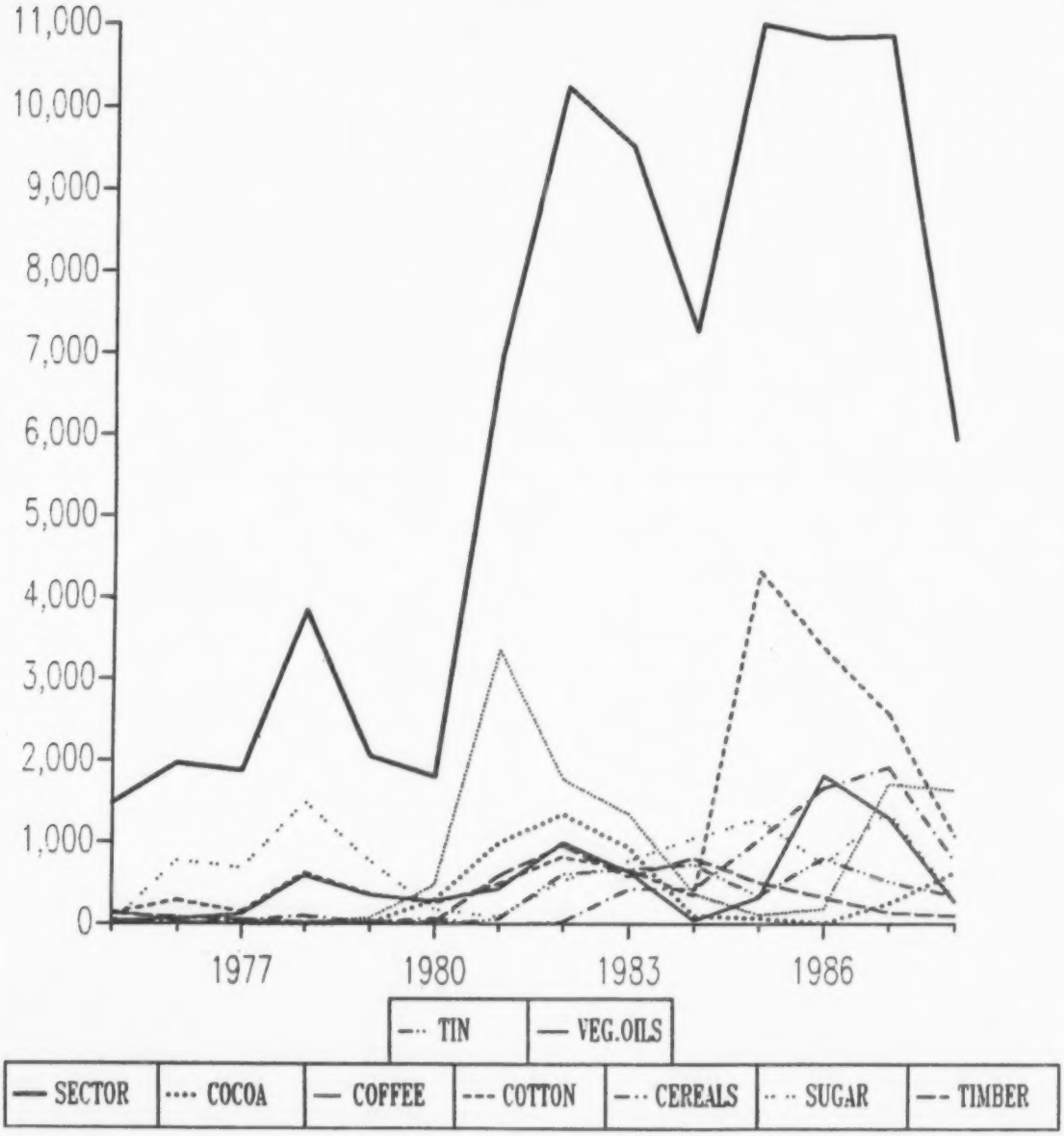
87. During the period 1975-1988, virtually all developing countries have experienced shortfalls in their commodity-related export earnings; 12 developing countries experienced such shortfalls only in the 1980s. The average annual earnings shortfall for non-fuel commodity exports of developing countries was $US 6,113 million on the basis of a four-year arithmetic average formula. As can be seen from figure 10 which shows the total gross shortfall in commodity export earnings of developing countries for the period 1975-1988 and shortfalls for the eight commodities contributing most to this gross shortfall, the peak years for shortfalls were 1985 ($US 11,000 million) and 1987 ($US 10,850 million). Total annual shortfalls in the 1980s were higher than those in the 1970s. Three major commodity exporters experienced significant shortfalls in the 1980s in tin, vegetable oils and cotton, and sizeable shortfalls occurred roughly at the same time for a number of other commodities. Some 35 developing countries with non-fuel commodity export dependence of above 80 per cent accounted for 15 per cent of the total shortfalls during the whole period, and 48 developing countries with a dependency between 40 per cent and 80 per cent accounted for 62 per cent of the total. Eight commodities, namely, cereals, cocoa and coffee, cotton, sugar, tropical timber, tin and vegetable oils represented 75 per cent of total shortfalls. Of these eight commodities, five compete directly with production and exports from developed countries, which are the major suppliers and many of which provide subsidies to their domestic production and exports.

88. It is interesting to note that the countries that experienced the largest shortfalls in a commodity are usually the main exporters of that commodity and yet their dependency of that commodity rarely exceeds 40 per cent. For tin, sugar, vegetable oils and cocoa, half or more of the shortfalls are accounted for by countries with a dependency of between 1 per cent and 5 per cent, whereas for coffee, cereals and cotton, over 50 per cent of the shortfalls occurred in countries with a dependency of over 20 per cent.

Figure 10

Earnings' shortfalls for non-fuel commodity exports of developing countries: total and the eight most important commodities

($US million)



Source: UNCTAD secretariat calculations based on four-year arithmetic average formula.

89. This means that the shortfalls of countries highly dependent on a commodity for export earnings are very important to that country, but are not highly significant in terms of the total size of shortfalls in export earnings from the particular commodity by all exporters.

90. Twelve developing countries, which are the principal commodity exporters, received half of the total finance made available under the compensatory financing facility of the International Monetary Fund (IMF-CFF) ($US 14.6 billion), almost half of which went to two countries (Argentina and Brazil). The least developed countries received only 8 per cent of IMF-CFF drawings, with their share in total shortfalls being of a similar order. Since 1983 the number of drawings under the IMF-CFF has shrunk dramatically from over 20 a year up to 1983 to under 10 a year since then. The IMF-compensatory and contingency facility came into operation in the fall of 1988. Transfers under STABEX for the whole period were $US 2.4 billion, with over half going to six countries (Cameroon, Côte d'Ivoire, Ethiopia, Papua New Guinea, Senegal and the Sudan) which accounted for 8 per cent of all shortfalls. Transfers in respect of cocoa and coffee represented 44 per cent of the total transfers. Compensatory finance was provided to four non-African, Caribbean and Pacific States, least developed countries (Bangladesh, Haiti, Nepal and Yemen) under STABEX-LDC-ALA for a total amount of $US 30 million in respect of shortfalls in 1986, 1987 and 1988. The STABEX scheme ran out of money during the three years in the 1980s.

91. Under the Swiss Compensatory Financing Programme, which started operation in 1988, approximately $US 17.2 million has been provided to least developed African countries in respect of shortfalls in their trade with Switzerland. During 1989 there were drawings by only three countries (Algeria, Jordan and Mexico) under the compensatory financing component and none under the contingency component although two arrangements allowing for access to contingency finance were entered into.

Notes

1/ The Committee on Commodities, which is scheduled to meet from 12 to 20 November 1990, will itself be reviewing the international commodity situation and outlook. Against this background, it will determine, in the light of the two sessions of the Working Party on Diversification, Processing, Marketing and Distribution, the future work and action in respect of this issue and especially with regard to information flows to aid investment decisions and financial resources for diversification projects and programmes, the need for which was agreed at the seventh session of the United Nations Conference on Trade and Development (UNCTAD). In addition, in establishing its work programme for the next two years, the Committee will review international action taken or envisaged in respect of individual commodities, including the outcome of consultations on individual commodities, not covered by international commodity agreements or arrangements, convened by the Secretary-General of UNCTAD. In this regard, the secretariat has proposed that specific attention be given by the Committee to the area of industrial minerals and fuels, which are key commodities for developing countries. Other issues before the Committee concern compensatory financing of

Notes (continued)

export shortfalls earnings in the light of Trade and Development Board decision 379 (S-XVI); the contribution that the Committee should make in respect of commodities to consideration of the question of sustainable development and notably, health and environmental concerns arising in the context of agricultural and mineral production; as well as support to international action with regard to illicit production, trafficking and consumption of narcotic drugs. The outcome of the Committee's discussions on these aspects will be communicated to the General Assembly. The relevant documents before the Committee and the Working Party on Diversification, Processing, Marketing and Distribution are the following:

Commodity situation and outlook, 1990 (TD/B/C.1/309)

Suggestions for further research and analysis in the area of diversification, processing, marketing and distribution, including transportation (TD/B/C.1/310)

Review of the work programme of the Committee, with particular reference to the results of intergovernmental consultations held pursuant to the relevant paragraphs of the Final Act of the seventh session of UNCTAD (TD/B/C.1/311)

Information flows to aid investment decisions (TD/B/C.1/AC.11)

Financial resources for diversification projects and programmes (TD/B/C.1/AC/12)

Report of the Working Party on Diversification, Processing, Marketing and Distribution, including Transportation, at its second session (TD/B/C.1/305-TD/B/C.1/AC.9)

2/ With effect from 3 October 1990, the Federal Republic of Germany and the German Democratic Republic united to form one sovereign State under the designation "Germany".

3/ In 1970-1972, export earnings of developing countries from fishery commodities amounted to about one third of earnings from coffee, their most important export commodity. As at 1987, fishery commodities had surpassed coffee, and become the most important export commodity for developing countries.

4/ When considering the very high share of export earnings from yarn and fabrics for Asia as a whole, account must be taken of the importance of the South-East Asian region, where countries are exporters of processed forms and importers of raw cotton.

For Pakistan the proportion of raw cotton exports increased. This is caused by the gigantic rise in its cotton production, which has enabled it to increase its share of world raw cotton exports from 4 per cent in 1970-1972 to 10 per cent in 1986-1988, overtaking the USSR, Egypt, the Sudan, Brazil, Mexico, and Turkey - all of which were larger exporters in the earlier period. Although textile exports also increased rapidly, it did not match the expansion of cotton production.

Notes (continued)

5/ Major petroleum-exporting developing countries or territories: Algeria, Angola, Bahrain, Brunei Darussalam, Congo, Ecuador, Gabon, Indonesia, Iran (Islamic Republic of), Iraq, Kuwait, Libyan Arab Jamahiriya, Mexico, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates and Venezuela. Major manufacture-exporting developing countries or territories: Argentina, Brazil, Hong Kong, Republic of Korea, Singapore, Taiwan Province of China and Yugoslavia.

6/ Asia's share in total commodity exports of developing countries went up by about 6 percentage points (from 27 per cent to 33 per cent) between 1970-1972 and 1986-1988, almost exclusively owing to the successful performance of South and South-East Asia.